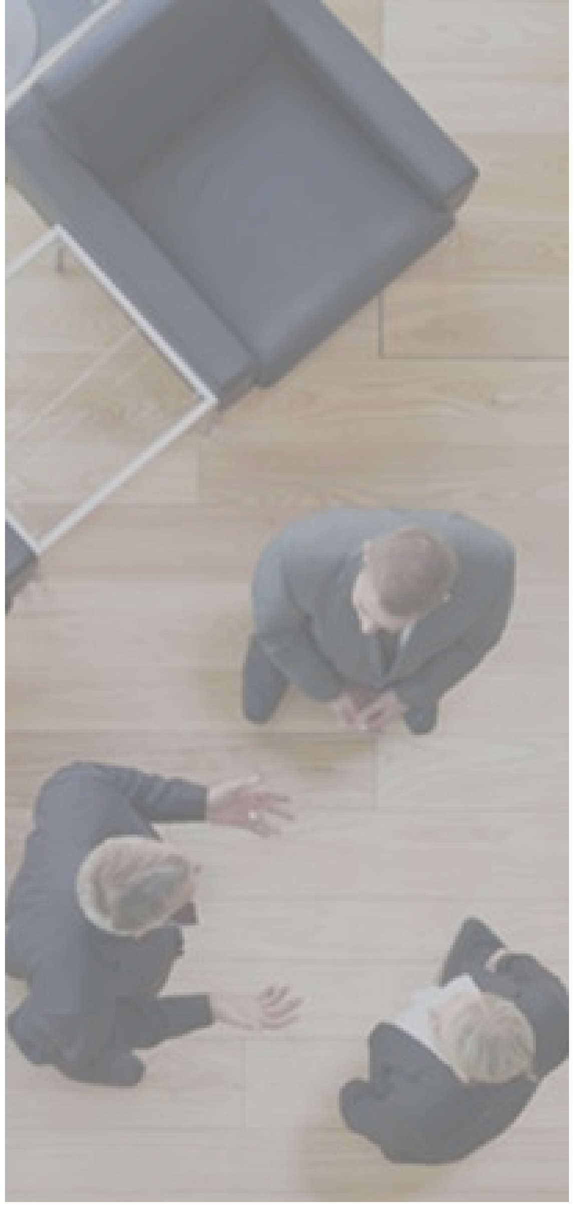
C.I.A. NETWORK

Asset Strategy in Brief

October 2024

BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world



Summary

Macro, Market Views

Macro			– US economic data continue to support our assumption of soft-landing. Initial jobless claims for example suggest slower hiring, not layoffs. Corporate bond market indicators also suggest limited recession risks. – In the eurozone, the manufacturing sector is weak while the service sector resists somewhat better. We see 3 reasons: i) the economic weakness in China; ii) fears of US tariffs and iii) the uncertainty around the auto sector. China's stimulus announcement is a key positive factor.
Rates	=		– We maintain our 12-month targets for 10-year yields (4% in the US and 2.25% in Germany) and adjust our 2-year yield targets lower, to 3.5% in the US and 2% in Germany. We remain tactically Neutral on government bonds as we expect yields to move higher in the short term. Structurally, US government bonds remain attractive. We also like EM bonds (both in hard and local currency).
Credit	+		– We keep a positive stance for US and eurozone corporate bonds of high quality ("Investment Grade"). – For higher yield (at higher risk), consider the US fallen angels strategy and Euro subordinated financial bonds.
Equities	+		– The key risks are that the market starts to reprice growth fears with central banks being perceived as "behind the curve". Increasing policy uncertainty around tariffs could weigh on sentiment, too. – We reiterate our Positive view on UK equities. We like the FTSE 100 for its diversifying characteristics and an attractive shareholder yield (~6%). We look for alpha in Japanese small caps as the stars align for further upside. – We maintain our Positive stance on the eurozone and Japan. Within Asia we like China, Singapore, South Korea and Indonesia. In Latin America, we maintain a Positive stance on Brazil. – We like EU and Japan SMIDs. We also like EU financials and REITs. In Japan, we are Positive on financials and domestic exposure. We prefer investment themes in Europe, such as Semiconductors & Equipment, Repower Europe. In Japan, we like governance reform achievers. In EM, we prefer APAC tech and Hang Seng technology. We stay cautious on Automotives
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 remain Neutral on oil , with a further reduced target range of USD 70-80. Downside risks persist in view of weak demand growth and the plan of OPEC+ to normalise its production cuts. – We increase our 12-month target price for Gold to USD 3000/oz.
FX			– USD/MXN: We change our USD/MXN 3-month target to 19, and our 12-month target to 18.5 (value of one USD). – USD/CNY: We change our 3- and 12-month target to 7.1. (value of one USD).

Key macro & markets forecasts

	GDP Growth %		Inflation %		Central Bank Rates %				Key market forecasts		
	2024e	2025e	2024e	2025e		Now	3M	12M		Now	12M
US	2.6	1.9	2.9	2.2	US Fed Funds Rate	5.00	4.50	3.75	US 10Y yield %	3.76	4
Eurozone	0.8	1.4	2.4	2.0	ECB Deposit Rate	3.50	3.00	2.25	Euro 10Y yield %	2.09	2.25
Japan	-0.2	0.7	2.6	2.4	Bank of Japan Policy Rate	0.25	0.50	1.00	UK 10Y Yield %	3.98	3.65
UK	1.2	1.4	2.6	2.5	Bank of England Base Rate	5.00	4.75	4.00	S&P 500	5762	n/a
China	4.9	4.5	0.4	1.3	China MLF 1Y Interest Rate	2.00	1.50	1.10	Euro STOXX 50	5004	n/a
									Oil Brent USD/bbl	73	70-80
									Gold USD/oz	2646	3000

Source: BNP Paribas WM. As at 2 September 2024

Asset Allocation

Allocation changes this month:

- <u>Equities</u>: No major changes
- <u>Bonds</u>: No major changes. One more rate cut by the ECB expected in 2024.
- <u>FX</u> : We change our 3- and 12-month USD/CNY target to 7.1. We also change our USD/MXN 3-month target to 19, and our 12-month target to 18.5.
- <u>Commodities</u>: Target upgraded for Gold to USD 3000. For oil, we remain Neutral, with a further reduced target range of USD 70-80.

Outlook Synthesis

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

02

Bonds

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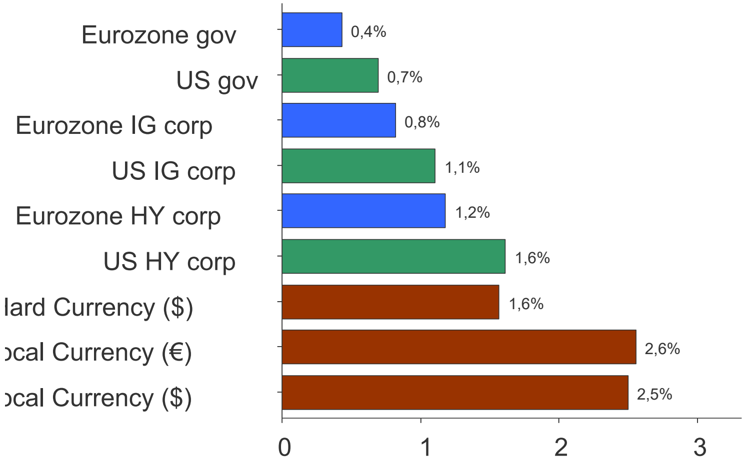
Fixed Income at a glance

Monetary policy has started to diverge with some central banks cutting rates, some hiking rates and others keeping rates on hold. Major central banks, including the Fed and the ECB have cut rates and are driving markets.

The ECB may accelerate this rate-cutting cycle given the worsening of economic data, particularly the sharp deterioration in forward-looking employment indicators. We have revised down our 2-year yield targets. We favour high quality assets (IG corporate bonds) and see value in EM bonds.

10-year yields	25/09/2024	12-month targets
US	3.79	4
Germany	2.19	2.25
UK	3.99	3.65

Returns over one month



Source: LSEG Datastream, Bloomberg and JPM indices, 25/09/2024

Central Banks

We expect the **ECB to cut rates by 25bp at both the October and December meetings** (only December previously) as economic momentum deteriorates. Quarterly 25bp cuts should be the pace for 2025 until the rate reaches 2.25%. In the US, we forecast a similar pace of cuts and a terminal rate of 3.25%.

Government Bonds

We maintain our 12-month targets for 10-year yields (see table above) and adjust our 2-year yield targets lower, to 3.5% in the US and 2% in Germany. We remain **tactically Neutral on government bonds** as we expect yields to move higher in the short term. Structurally, US government bonds remain attractive.

Peripheral bonds

We are Neutral on peripheral debt thanks to elevated carry. Short-term risks include high bond supply and budget events that could trigger higher volatility and wider spreads temporarily.

Corporate Investment Grade (IG) Bonds

Credit spreads are tight, especially in the US, but technicals are supportive for at least the next few months. **We prefer short maturities in the US and up to 10 years in the eurozone.**

Corporate High Yield (HY) Bonds

Carry is attractive but valuations are tight, particularly in the US. We prefer IG corporate bonds over HY as growth is decelerating.

Emerging Market (EM) Bonds

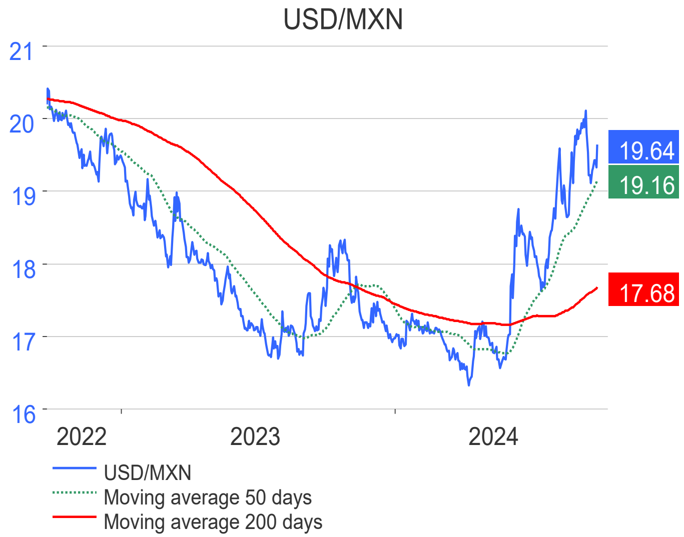
The Fed's rate cut triggered a rally in risk assets such as EM bonds, and paves the way for EM central banks to cut rates. We stay Positive on both hard and local emerging bonds.

03

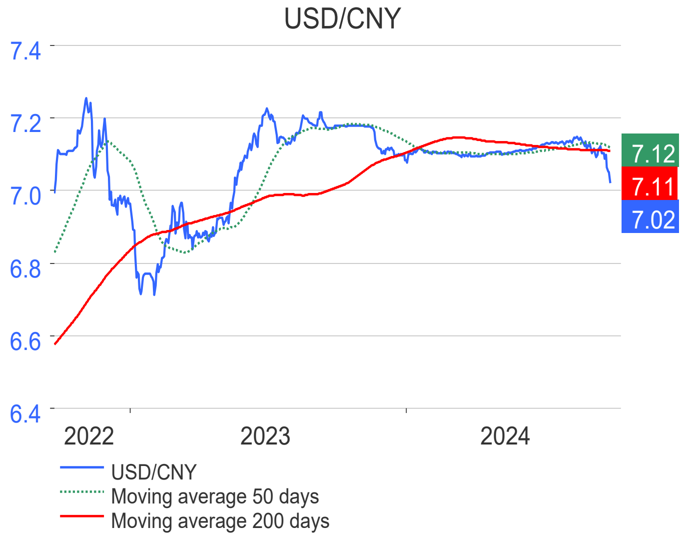
Currencies

Currencies

1. **USD/MXN: As expected, Banxico cut rates by 25bp on 26 September due of a weaker economic activity and ongoing disinflation.** The US economic slowdown, the approaching US election, the likelihood of further reforms being approved suggest more caution. The Banxico's reaction function is also more dovish than in the past. **We change our USD/MXN 3-month target to 19 and our 12-month target to 18.5 (value of one USD).**
2. **USD/CNY: China's policy stimulus measures exceeded market expectations.** The PBoC cut the 1Y MLF rate by 30bp to 2.0%. The current policy rate in China will be lowered by 20bp. The authorities also announced more fiscal stimulus. **We change our 3- and 12-month target to 7.1 (value of one USD).**



Source: LSEG Datastream, 25/09/2024



Source: LSEG Datastream, 25/09/2024

>> TARGET 12M EUR/USD: 1.12

The Federal Reserve (Fed) started its rate-cutting cycle with a surprise 50bp cut. We now expect a 25bp cut at each of the November and December meetings, followed by quarterly 25bp cuts in 2025. The market expects even more cuts. **We maintain our 3-month target at 1.10 and our 12-month target at 1.12 (value of one EUR).**

>> TARGET 12M EUR/GBP: 0.86

The BoE kept rates on hold. We expect the BoE to deliver another cut in November and to proceed at a quarterly pace in 2025. The Pound overshot and we look for a normalisation. **We change our 3- month target to 0.86 and maintain our 12-month target at 0.86 (value of one €).**

>> TARGET 12M NZD/USD: 0.63

The RBNZ cut rates by 25bp in August and stated that it had discussed a bigger move. A weak growth backdrop and signs of loosening in the labour market could allow the Reserve Bank of New Zealand to cut rate more than the RBA. **We change our NZD/USD 3-month target to 0.63 and maintain our 12-month target at 0.63 (value of one NZD).**

>> TARGET 12M EUR/CHF : 0.96

The central bank delivered a dovish 25bp cut to 1%, explicitly signalling scope for further rate cuts ahead, while significantly lowering its conditional inflation forecasts. We expect the SNB to cut its rate by an additional 25bp in December, to a terminal rate of 0.75%. **We maintain our EUR/CHF 3-month target at 0.94 and 12-month target at 0.96 (value of one €).**

>> TARGET 12M USDCNY: 7.1

China's policy stimulus package exceeded market expectations. The PBoC cut 1Y MLF rate by 30bp to 2.0%. The current policy rate in China will be lowered by 20bp. The RRR for large- and medium-sized banks will be lowered by 50bp. With increased exporter hedging and potentially new policy support, **we change our 3- and 12-month target to 7.1 (value of one USD).**

>> TARGET 12M USDMXN: 18.5

Banxico cut rates by 25bp on 26 September. In a context of the US activity slowdown, the approaching US election, the likelihood of further reforms being approved, and Banxico's reaction function being more dovish than in the past, **we change our USD/MXN 3-month target to 19 and our 12-month target to 18.5 (value of one USD).**

Forex at a glance

FX FORECASTS EUR

	Country		Spot 03/10/2024	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1.10	Neutral	1.10	Neutral	1.12
	United Kingdom	EUR / GBP	0.84	Negative	0.86	Negative	0.86
	Japan	EUR / JPY	161.71	Neutral	160	Positive	157
	Switzerland	EUR / CHF	0.94	Neutral	0.94	Negative	0.96
	Australia	EUR / AUD	1.61	Neutral	1.62	Neutral	1.60
	New-Zealand	EUR / NZD	1.77	Neutral	1.75	Neutral	1.78
	Canada	EUR / CAD	1.49	Positive	1.45	Positive	1.46
	Sweden	EUR / SEK	11.37	Positive	11.00	Positive	11.00
	Norway	EUR / NOK	11.70	Positive	11.30	Positive	11.00
Asia	China	EUR / CNY	7.73	Neutral	7.81	Negative	7.95
	India	EUR / INR	92.52	Positive	90.20	Neutral	91.84
Latam	Brazil	EUR / BRL	6.05	Neutral	6.05	Neutral	5.94
	Mexico	EUR / MXN	21.53	Positive	20.90	Positive	20.72

Sources: BNP Paribas, LSEG

FX FORECASTS USD

	Country		Spot 03/10/2024	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1.10	Neutral	1.10	Neutral	1.12
	United Kingdom	GBP / USD	1.31	Negative	1.28	Neutral	1.30
	Japan	USD / JPY	146.77	Neutral	145.00	Positive	140.00
	Switzerland	USD / CHF	0.85	Neutral	0.85	Neutral	0.86
	Australia	AUD / USD	0.68	Neutral	0.68	Positive	0.70
	New-Zealand	NZD / USD	0.62	Neutral	0.63	Neutral	0.63
	Canada	USD / CAD	1.35	Positive	1.32	Positive	1.30
Asia	China	USD / CNY	7.02	Neutral	7.10	Neutral	7.10
	India	USD / INR	83.97	Positive	82.00	Positive	82.00
Latam	Brazil	USD / BRL	5.49	Neutral	5.50	Positive	5.30
	Mexico	USD / MXN	19.54	Positive	19.00	Positive	18.50
EMEA	South Africa	USD / ZAR	17.54	Negative	18.00	Neutral	17.50
	USD Index	DXY	101.99	Neutral	101.89	Negative	99.93

Sources: BNP Paribas, LSEG

04

Equities

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Welcome to your rate cut experience

A big step for the Fed and the markets

- **It's the economy, stupid –** The Fed finally joined the global rate-cutting bandwagon with a bang, opting for a 50bp cut, a rare move outside of recessionary scenarios. As we still forecast a soft landing, this move is good news for investors. Historically, falling rates have been a tailwind for stocks in a non-recessionary environment.
- **How about the rest? –** The impact of the rates cycle in the US has global implications as higher liquidity and a softer dollar are often a positive backdrop for equities. EM equities tend to perform generally well in a non-recessionary Fed cutting cycle – as do EU equities. The latter are enjoying another tailwind as the ECB is cutting rates as well, which historically propel European equities higher.
- **A rotation towards normalcy? –** While the last 12M+ have been dominated by a handful of US mega cap stocks, a more balanced approach has historically produced more favourable results. We think that a combination of low starting valuations and a solid economic growth environment should be a fertile soil for re-establishing this long-term trend.
- **In the sweet spot?–** Mid-cap stocks have typically outperformed both large-caps and small-caps during the 12 months following the first Fed rate cut in an easing cycle.

Main recommendations

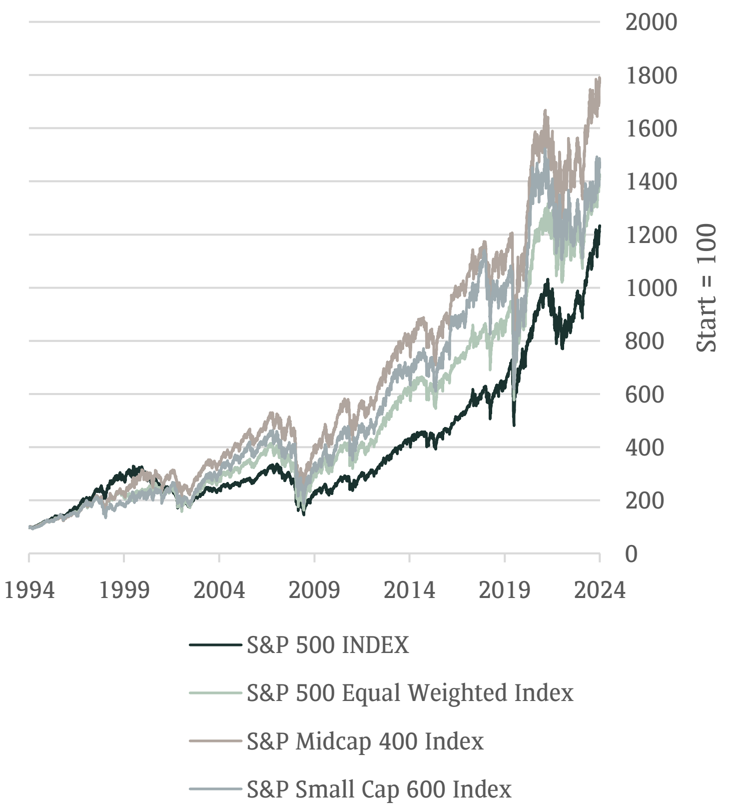
Look for alpha in Japanese small caps as the stars align for further upside. Increasing real wage growth should lend solid support to small caps in general while a decreasing analyst coverage presents significant opportunities to add alpha in a small cap selection.

Buy British – we reiterate our Positive view on UK equities. We like the FTSE 100 for its diversifying characteristics and an attractive shareholder yield (~ 6%) while the FTSE 250 offers attractive exposure to improved UK economic momentum, pent-up demand from high household savings levels and falling interest rates.

Car crash – staying cautious on Automotives. We take the recent series of profit warnings as confirmation for our cautious view on the sector. The driving headwinds of rising inventories, unfavourable price/volume mix and affordability issues should persist for the time being.

The key risks are that the market starts to reprice growth fears with central banks being perceived as "behind the curve". Increasing policy uncertainty around tariffs could weigh on sentiment, too.

SMIDS WERE THE BETTER LONG-TERM OPTION



Source: BNP Paribas, Bloomberg

Asian Equities view

ASIA COUNTRY PREFERENCE

+	=	–
COUNTRY		
China Singapore South Korea Indonesia	Taiwan, Thailand Malaysia Philippines India	-

- China's central banks announced a new round of monetary stimulus. Although it is not a bazooka, the coordinated moves by the regulators, the simultaneous and large magnitude of rate and RRR cuts, the unusual guidance of further easing and the new monetary policy tools to support stock markets surprised the markets to the upside amid the already weak sentiment and low expectations from investors.
- The Politburo also vowed to achieve 5% growth target by increasing fiscal support. They had already announced cash handouts to the poor and Shanghai will offer consumption vouchers worth RMB 500m.
- With the still cheap HK/China stock valuations and low investor positioning, there is still room for further market upside in the short term. Follow-through on concrete fiscal measures are required to sustain the rally in the medium term.

China's new monetary stimulus exceeds market expectations

Stimulus	Measures	Market Implications
Policy rates	• 20bp 7D reverse repo rate cut • 30bp 1Y MLF rate cut • 20-25bp LPR cut • 20-25bp deposit rate cut to stabilize banks' NIM	• the simultaneous and large magnitude of rate and RRR cuts suggest **policymakers are still determined to achieve 5% growth target**
RRR	• 50bp cut • another 25-50bp cut by end-2024	• inject RMB 1 trillion into the banking system
Banks	• add core tier-1 capital to 6 major banks	• increase bank's ability to support the real economy
Property market	• average of 50bp cut in outstanding mortgage rates (close to new mortgage rate) • lower minimum downpayment ratio for 2nd home buyers from 25% to 15% (same as 1st home buyers) • increase rental housing relending support to cover 100% of the loan principal from 60% to accelerate inventory reduction • extend supportive policies for operating estate management loans and developers outstanding loans to end-2026	• impact of property easing is likely to be moderate • mortgage rate cut is estimated to save households' annual interest expense of RMB 150bn • if one third is translated into consumption, this will be about 0.05% of GDP, which is still very small • **More aggressive fiscal policies are still needed**
Stock market [NEW}	• RMB 500bn swap facility for insurance, asset management and securities firms to tap PBoC funding to buy stocks • RMB 300 bn relending facility to encourage banks to provide loans to listed companies for share buybacks • **Request constituents of key A-share indices with low PB to set up plans on market value management** • 6 reform guidelines to support M&A	• **RMB 800bn is sizable, equivalent to ~1.03x daily turnover, 2.5x 2023 total buybacks, 1.3x YTD national team buying, 3.4x average annual northbound inflows; quota can be increased** • provide further liquidity support and enhance stock market value • Southbound eligible stocks and onshore ETFs are key beneficiaries

Source: BNP Paribas WM , as at 25 September 2024

05

Commodities

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Commodities at a glance

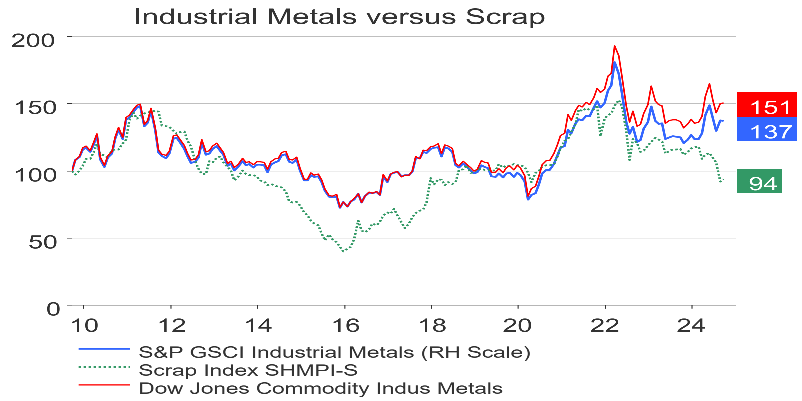
Brent prices fell to a low of USD 70 early September, due to weaker than expected demand growth (slowing macro-data, weak Chinese demand), while OPEC+ would like to normalise its production cuts. Oil prices have rebounded somewhat in recent weeks due to the Gulf of Mexico hurricane, Israel-Hezbollah war and Chinese stimulus. **Reduced target range of USD 70-80.**

Base metal prices suffered from weak manufacturing PMIs over the summer months, but recently rebounded thanks to the announced Chinese stimulus package. While iron ore, coal and battery materials have heavily declined since last year, most non-ferro metals have posted nice YTD gains: tin +28%, copper +15%, zinc +12%, aluminium +8%.

Gold continued its rally to reach new record highs, benefiting from the start of the Fed's rate cutting cycle, lower real bond yields, weaker USD and increased ETF inflows. Gold is up 29% YTD, silver even +34%. **We increase our 12-month target price to USD 3000/oz.**

BASE METALS

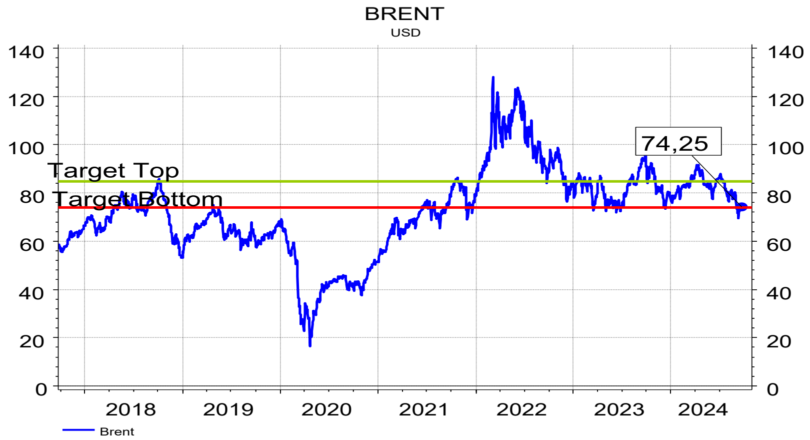
+ We expect a recovery of manufacturing PMIs in 2025, helped by lower interest rates and Chinese stimulus. Demand growth will accelerate thanks to energy transition, further EM urbanisation and infrastructure expansion, and will outpace supply growth.



Source: LSEG Datastream, 23-09-24

OIL

= We remain neutral, with a further reduced target range of USD 70-80. Downside risks persist in view of weak demand growth and the wish of OPEC+ to normalize its production cuts. Possible upside risk in case of further escalation of Middle East war.



Source: LSEG Datastream, 23-09-24

GOLD

+ We expect the upward trend to continue, with major support over next months from declining interest rates and inflows from private investors. We increase our 12-month target price to USD 3000/oz.

Source: LSEG Datastream

Our position for this month

Evolution of our position from last month

06

Alternative investments

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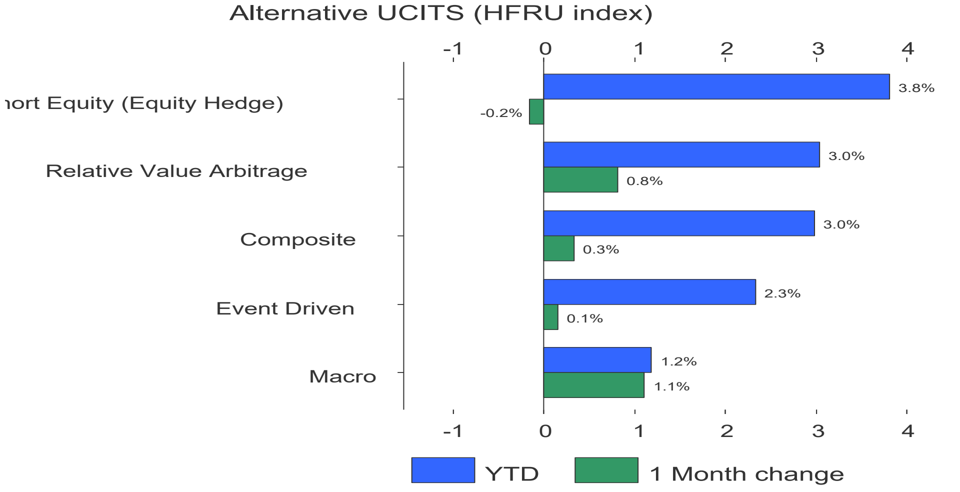
Alternative Investments at a glance

Performances were positive over the past month for the main strategies. They remain positive this year. Long-short equity remains the best performer year-to-date followed by Relative Value. Macro has outperformed over the past month.

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



Source: LSEG Datastream, 24/09/2024

Global Macro

Neutral: Markets are still dealing with the uncertainty linked to the pace of monetary easing and soft vs. hard landing scenarios, but also now with political risk, culminating with the US presidential election. Given potential surprises, directional bets remain more challenging than Relative Value trades.

Event Driven

Positive: M&A activity is expected to continue to tick up in 2024 with first half M&A activity increasing 18% to USD 1.5 trillion. Despite current political risk, we expect increased volume, several large outstanding deals, inflation slowing with rates likely going down. This may yield a good end to the year for this strategy type.

Long/Short Equity

Positive: Market breadth has improved recently after historical outperformance concentrated in the "magnificent seven". Intra market equity dispersion is back to historically high levels, with a very wide gap between expensive and cheap stocks, paving the way for better long and short stock picking opportunities. Long/short should provide positive returns with relatively low correlation to equity markets.

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 debt before the "maturity wall" should cause dispersion between strong and weak issuers.

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