

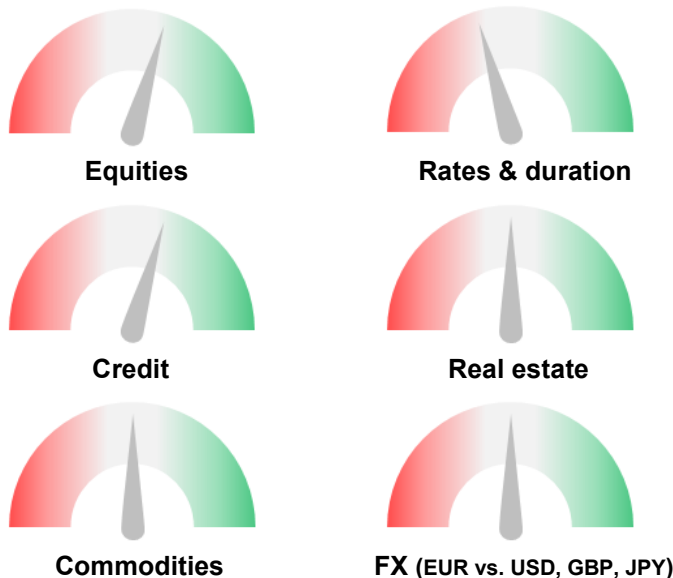
ASSET ALLOCATION QUARTERLY

BNPP AM – Multi Asset, Quantitative and Solutions (MAQS)



LOOKING AHEAD TO H2: WILL GOLDBLOCKS LAST?

Asset allocation overview



Maximilian MOLDASCHL
Senior Multi-Asset Strategist, MAQS
maximilian.moldaschl@bnpparibas.com
+44 20 7063 7247

Guillermo FELICES
Head of Research and Strategy, MAQS
guillermo.felices@bnpparibas.com
+44 20 7063 7196

SUMMARY

- **'Fragile goldilocks' firming up** – We continue to envisage 'not too hot and not too cold' economic conditions in our base case scenario, but clearly, there are risks that could destabilise this sweet spot.
- **Macro data – softer, but stabilising** – Since the Q4 soft patch, the macroeconomic backdrop has stabilised. Combined with low inflation, softer, but stable growth should be enough for 'goldilocks' to persist. US domestic data have held up well.
- **Central banks – back in full swing** – Recent weeks have seen several flashpoints, with monetary policy by the US Federal Reserve and the ECB as well as in China edging more into dovish territory. All else equal, this should support risk assets, depress real rates and revive inflation breakeven rates.
- **Trade-war risks** – Likely continue to oscillate around a medium to long-term trend of de-globalisation. Short term, the trade truce between the US and China at the G20 meeting is supportive.

ASSET ALLOCATION

- **Modus operandi for stocks: buy dips** – We believe the current environment is conducive to buying dips, but also selling excessive rallies. Broadly speaking, we expect equities to trade within a volatile, slightly upward tilted range. We bought recent dips in developed market stocks.
- **Search for yield makes carry assets attractive** – A further compression in real rates should support high-yielding assets. We remain long emerging market hard currency debt and are looking for tactical entry points in other carry/high-yield assets.
- **Central banks spur reflation hopes** – We expect reflation hopes on the back of recent central bank action to drive US inflation break-evens higher, at least in the short term.
- **Building robust portfolios** – We are monitoring several risks that could destabilise the current status quo. As such, we also still believe that building robust portfolios is absolutely key and we hold several trades with asymmetries/hedges.



BNP PARIBAS
ASSET MANAGEMENT

The asset manager
for a changing
world

MARKET REVIEW: Q2 2019

Global equity markets rallied in April, but in May, investor concerns over trade war tensions and a broad economic slowdown spiked again and led to a correction in risky assets. June's rebound was mainly driven by a dovish tilt by both the US Federal Reserve and the ECB. This rollercoaster ride is not visible in Q2 returns: emerging market (EM) were slightly positive (0.2%), having suffered more in May, while developed markets (DM) gained almost 3.6% after June's significant recovery.

Sino-US tension spiked in late May as the Trump administration implemented decisions including a 25% tariff on USD 200 billion of Chinese goods, threatening tariffs on a further USD 325 billion of imports from China and curbing tech company Huawei's access to the US market. China retaliated, announcing cuts in its US supply of rare-earth metals, putting on hold US soybean orders, restricting gas purchases from the US, and setting up a list of "unreliable" foreign organisations that damage the interests of Chinese companies.

In late June, at the G20 meeting, presidents Trump and Xi agreed a 'truce/ceasefire' on further tariffs (avoiding the tariffs on a further USD 325 billion of Chinese goods) and also agreed to re-start trade negotiations. Furthermore, the US lifted restrictions on Huawei, whereas China agreed to buy large amounts of US goods.

China was not the only target of Trump's strategy; indeed, the tariffs weapon was also used against Mexico to pressure the government to stop the flow of migrants entering the US. On this front, after an agreement was reached at the beginning of June, Trump suspended the planned levies.

Fixed income markets did well in Q2, with US Treasuries and German Bunds both up by almost 2.5%. EMU 'peripheral' spreads narrowed and EMU bonds gained almost 4.5%.

In commodities, the energy sector fell by 4.5%, with crude oil dropping sharply for most of the quarter. Despite OPEC's decision to keep production constrained, oil prices dove after a higher-than-expected increase in US inventories, while worries over trade wars added to the negative sentiment.

On the political front, EU elections held at the end of May saw little change in the share of populist parties, meaning they will not have any significant influence in the European Parliament. In the UK, after failing to deliver any successful EU Brexit deal proposal, Theresa May resigned and Conservative candidates are now running an internal campaign to take the leadership of the party – and the government. The favourite is Boris Johnson, who is prepared to support a no-deal Brexit.

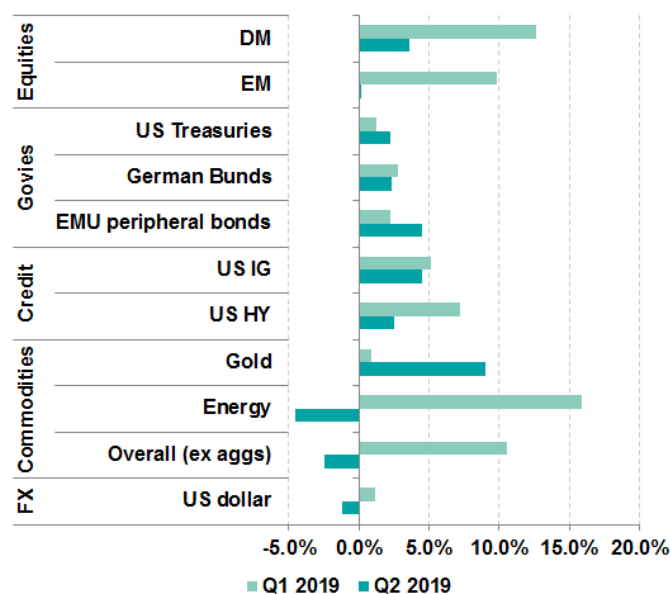
Data released in the US was mixed. Non-farm payrolls came in at 75 000 (vs. a consensus expectation of 175 000), while initial jobless claims remained solid at 217 000 (vs. a consensus

expectation of 220 000). Elsewhere, in China, industrial production, retail sales and fixed asset investment (FAI) all slowed, with YoY figures surprising to the downside (YoY IP 5.4% vs. 6.5% consensus, retail sales 7.2% vs. 8.6% consensus, FAI 6.1% vs. 6.4% consensus).

In terms of monetary policy, major central banks erred on the dovish side. ECB President Mario Draghi made a conditional commitment to additional stimulus, signalling his determination to revive eurozone inflation and emphasising the flexibility of the tools at the ECB's disposal. In the US, Fed Chair Powell left interest rates unchanged at the June meeting, but clearly signalled that rate cuts were on the agenda.

Finally, China's PBoC raised the quota of the rediscount window by RMB 200 billion and the quota of the standing lending facility by RMB 100 billion to support the funding of small and medium-sized banks. Beijing ordered local governments to use special bonds as equity capital to borrow more from the markets for infrastructure investment projects. The central bank governor said that the PBoC had a lot of policy room should the trade war with the US worsen.

Figure 1: Q2 global market returns – overall numbers mask a rollercoaster ride in April, May and June



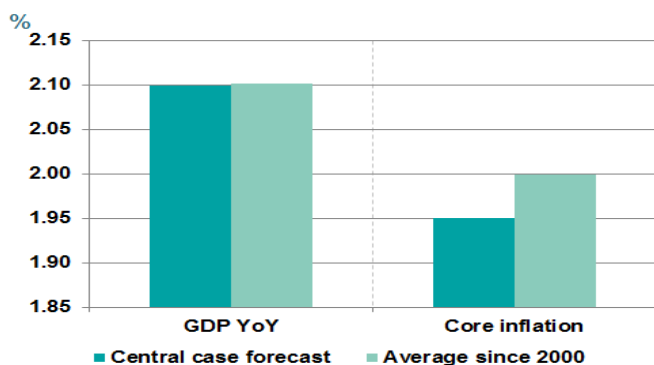
Source: Bloomberg and BNPP AM, as of 28/06/2019



OUR ROADMAP: 'FRAGILE GOLDILOCKS'

The ideas around a 'goldilocks' environment have been at the heart of our roadmap for some time, and we continue to see 'not too hot and not too cold' economic conditions in our base case scenario. Indeed, we note that growth, while not gangbusters, has stabilised in recent months and inflation remains stubbornly low (Figure 2). With central banks erring on an ever more dovish side too, 'goldilocks' could even be firming up compared to prior months.

Figure 2: 'Goldilocks' still in place: moderate GDP growth and low inflation support a dovish central banks



Source: Bloomberg and BNPP AM, as of 28/06/2019

However, regular readers will recall that we have characterised the backdrop as a 'fragile goldilocks', since we see prominent risks that could destabilise this sweet spot and that need monitoring. Figure 3 shows our scenario matrix once again, highlighting that either a growth shock (move to bottom left-hand quadrant) or an inflation shock (move to top right-hand quadrant) could take us out of the current 'goldilocks' backdrop.

Markets are clearly ignoring inflation risks entirely (more on this below), so in a sense, they are currently grappling with the competing forces of central bank easing on the one side and growth/trade war risks on the other.

Figure 3: 'Fragile goldilocks' & key risk scenarios

	Fed pauses	Fed tightens
mature cycle	"fragile goldilocks"	"US economy overheats"
end-cycle	"synchronised slowdown"	"stagflation environment"

Source: BNPP AM, as of 28/06/2019

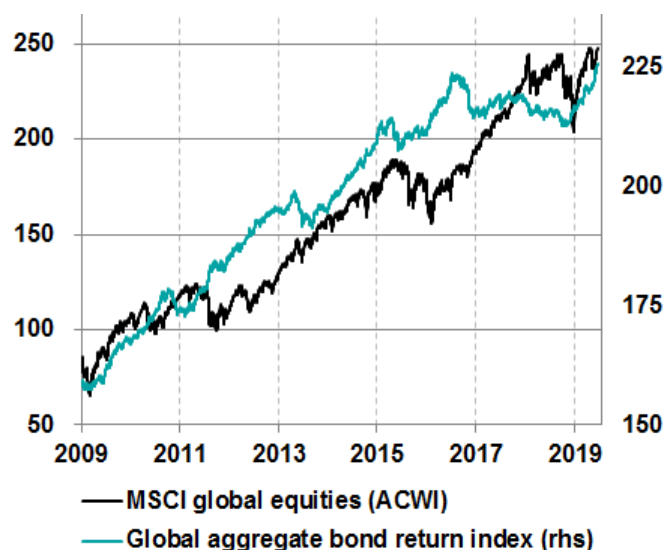
In light of this tug-of-war, many market participants seem puzzled by the simultaneous rally of bond *and* equity markets in recent weeks, suggesting that these asset classes are pricing in diametrically opposed macro backdrops and that one of them is thus likely to be wrong.

Taking a step back, the simultaneous rally in stocks and bonds (or actually all assets) is of course nothing new: it has been going on for more than a decade (Figure 4).

True, the simultaneous rally in risk assets and safe havens may look like an oxymoron at first sight. But such a view of the world frankly misses the shifting market drivers, and perhaps a new/additional way of analysing markets. The underlying common driving force is central bank policy easing/quantitative easing (QE).

By trying to tackle stubbornly/structurally low inflation, policymakers have compressed term premia, flattened yield curves and compressed real rates, all in the hopes of boosting activity and eventually reviving inflation. With inflation taking a long time to revive, fixed income markets have rallied and risky assets have also done well, both via expanding multiples (given low rates and abundant liquidity) but also via earnings delivery. In a sense, central banks have – so far – created asset price inflation, but not much CPI inflation and this underlies the rally at both ends of the risk spectrum.

Figure 4: Equities and bonds both at record highs



Source: Bloomberg and BNPP AM, as of 28/06/2019

Will 'goldilocks' last? Monitoring three pillars

With central banks ramping up the dovish rhetoric once again, *all else being equal*, the short-term outlook favours being exposed to market risk, carry and emerging market trades and spread/duration risk (more on our asset allocation views below).

Given all this, the key question is what could cause this 'goldilocks' sweet spot to fade?



Here, we monitor three pillars – i) the data/macro backdrop, ii) monetary policy, and iii) trade war risk. We have summarised developments on these fronts in Figure 5.

As noted above, over recent months, ‘goldilocks’ conditions have firmed up: growth has stabilised and monetary policy has turned dovish. Sino-US trade tensions have oscillated back and forth as per our expectation (see below) and are a theme likely to occupy investors for some time to come, even as the G20 meeting between President Trump and Xi produced a truce.

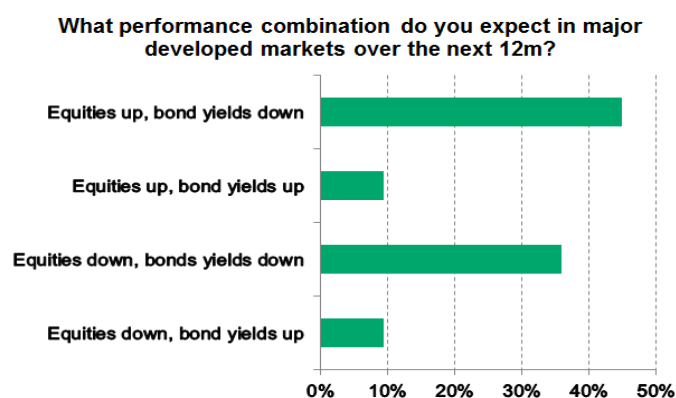
Figure 5: Goldilocks checklist – conditions firming up?

	Q4 2018	Q1 2019	Q2 2019	H2 2019 ?
Macro backdrop	Growth: ❌	Growth: 🟡	Growth: 🟡	Growth: ✅
	Inflation: ✅	Inflation: ✅	Inflation: ✅	Inflation: ✅
Monetary policy	Fed: ❌	Fed: ✅	Fed: ✅	Fed: ✅
	ECB: ❌	ECB: ❌	ECB: ✅	ECB: ✅
	China: ✅	China: ✅	China: ✅	China: ✅
Tradewar	Tensions: ❌	Tensions: ✅	Tensions: ❌	Tensions: ✅

Source: BNPP AM, as of 28/06/2019

Interestingly, a ‘goldilocks’ like environment seems to have also entrenched itself as the street consensus. At our annual investors’ forum¹, we asked a group of investors several questions, including their market outlook for the next twelve months (Figure 6). A goldilocks fuelled “equities up, bond yields down” was the consensus, followed by a slowdown environment “equities down, bond yields down”. To us, this underscores the fragile nature of the current goldilocks, but we would also note that anecdotally many do not seem to be fully invested for such a goldilocks environment.

Figure 6: Investor survey: ‘goldilocks’ the consensus?



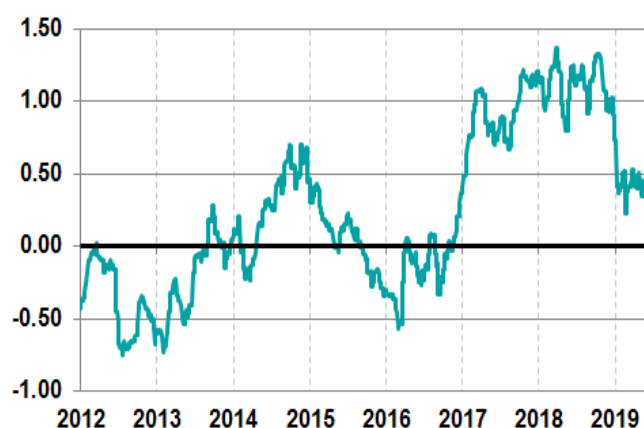
Source: BNPP AM, as of 27/06/2019

¹ BNP Paribas Asset Management’s conference organised in Paris on June 26 – 27th was attended by 120 senior clients

MACRO DATA – SOFTER, BUT STABILISING

Clearly, most major economies took a hit in Q4 2018 and early in Q1 2019. However, as noted before, since then the macro backdrop has stabilised, if at admittedly softer levels notably for the US (Figure 7). But crucially, combined with low inflation, we believe softer, but stable growth suffices for ‘goldilocks’ to persist.

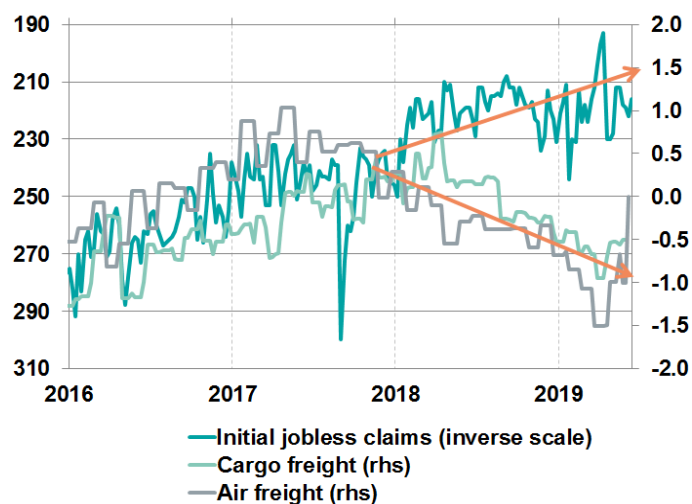
Figure 7: Aggregate leading US macro data – stabilising



Source: Bloomberg and BNPP AM, as of 28/06/2019

Moreover, we note that the domestic backdrop in the US remains sound: the labour market is tight and the consumer looks healthy. Trade-related aspects such as manufacturing output are the clear soft spot and they are at risk from Sino-US tensions. Figure 8, showing US jobless claims and international freight data, highlight this divergence clearly.

Figure 8: Spot the difference: US domestic vs. international* macro diverging



* freight data shown is aggregated and standardised using inputs from air freight airports (Hong Kong, Singapore, Amsterdam, Zurich), cargo freight ports (Singapore, China, Los Angeles) and global containers. Source: Bloomberg and BNPP AM, as of 28/06/2019



CENTRAL BANKS – BACK IN FULL SWING

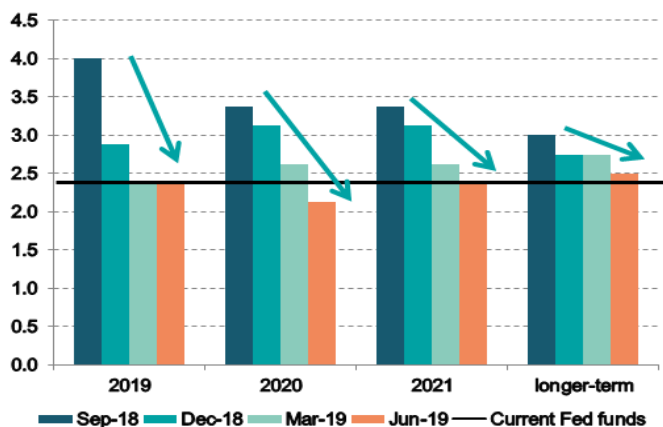
On the central banks' side, recent weeks have seen several flashpoints, with policy generally edging more into dovish territory. In fact, compared to late last year, when the Fed was edging into restrictive territory and the ECB was looking to wind down QE, the pivot in central bank guidance has been massive.

Federal Reserve: heading for cuts?

Following January's dovish pivot by the Fed and the confirmation in the 'dot plot' at the March policy meeting, fixed income markets had been pricing in multiple rate cuts already. Despite these expectations, June's policy meeting took the dovish tone to a new pitch, with the latest 'dot plot' and Fed commentary pointing to cuts as early as July (Figure 9).

Along with new 'dots' the Federal Reserve also updated its macroeconomic forecasts as part of their quarterly Summary of Economic Projections. We note two key developments. Firstly, the forecast path for inflation was revised lower. Secondly, the growth projections were unchanged and the forecast for the unemployment rate was revised down. Taken together, the Fed is sending a clear message about its concern over stubbornly low inflation rather than growth, and that its dovish tilt is due to inflation. On growth, the main uncertainty (rather than an immediate concern) it highlighted was trade tensions.

Figure 9: FOMC dots – another dovish shift, signalling cuts



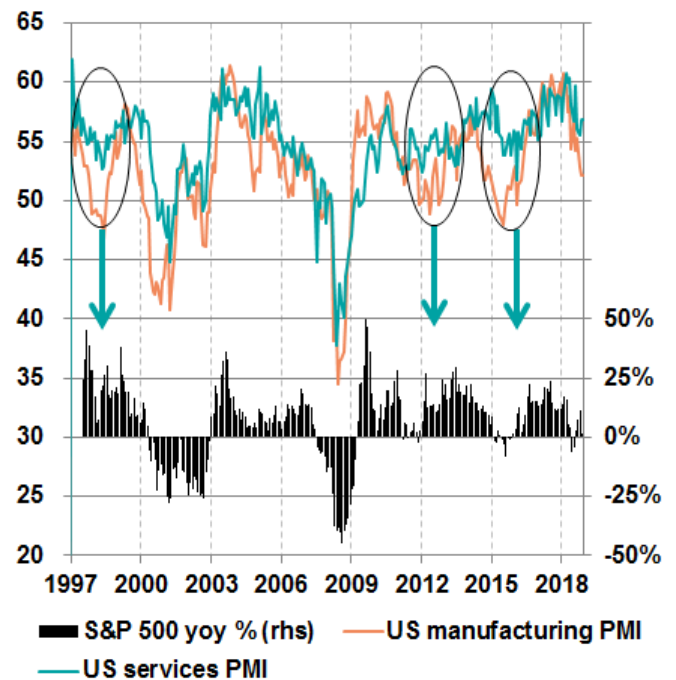
Source: Bloomberg and BNPP AM, as of 28/06/2019

Knowing the reason why the Fed may embark on an easing cycle is key for the outlook on markets.

If, as at the start of many previous easing cycles, growth concerns are the trigger, risk assets tend to do poorly and safe-haven assets rally. If on the other hand, Fed dovishness is more of an 'insurance' move, the market outlook can be very different.

Here we take a look at history to draw some conclusions. In Figure 10, we inspect the US manufacturing PMI and its services counterpart, as well as equity market price action in different regimes.

Figure 10: Equity market can perform when Fed turns dovish as 'insurance'



Source: Bloomberg and BNPP AM, as of 28/06/2019

In episodes where both PMIs were falling (2001, 2008, 2010) clearly growth was challenged and risk assets fell sharply. In episodes where the manufacturing PMI fell due to an external shock, but the service sector held up (1998, 2012, 2016), equity markets actually did well.

Given the focus on stubbornly low inflation by central banks, and given a stable growth backdrop absent a material escalation in the trade war between the US and China, we believe the current juncture is comparable to one of the latter episodes.

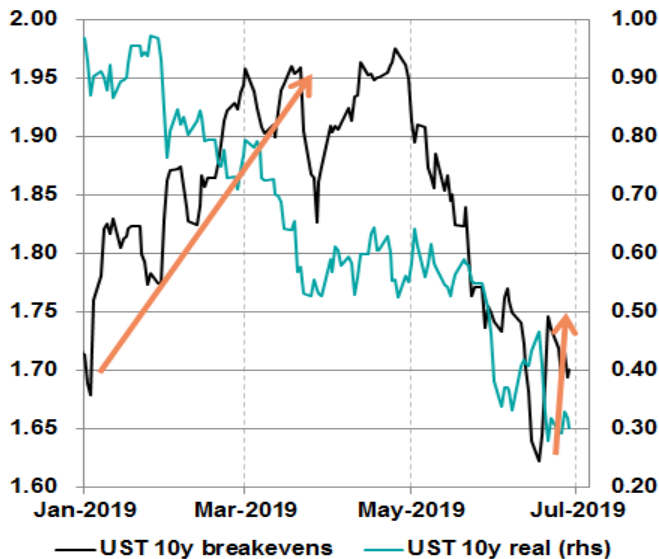
In fact, we have seen service sector/consumer data out of the US holding up well, with any weakness concentrated in the manufacturing-related sectors (see Figure 8).

After increasing our market risk via DM equities last month, we continue to have a positive tilt to equities in our portfolios (more in the asset allocation section below) and believe the current environment remains conducive to buying risk asset dips.

Elsewhere, we entered into a tactical long breakeven inflation trade (expecting higher market inflation expectations) heading into the latest FOMC meeting. Price action since then has been supportive: once again the fixed income market has responded in 'typical QE fashion' to the dovish Fed by pricing real rates lower and break-evens higher (Figure 11). Apart from having central banks 'on side', attractive valuations were also a reason to enter this trade with a tactical horizon in mind.

As we continue to expect lower real rates to prolong the ‘search for yield’ dynamic, we remain long EM hard currency debt and have other carry assets on our radar (see asset allocation section below).

Figure 11: Fed ease...real rates down, break-evens up



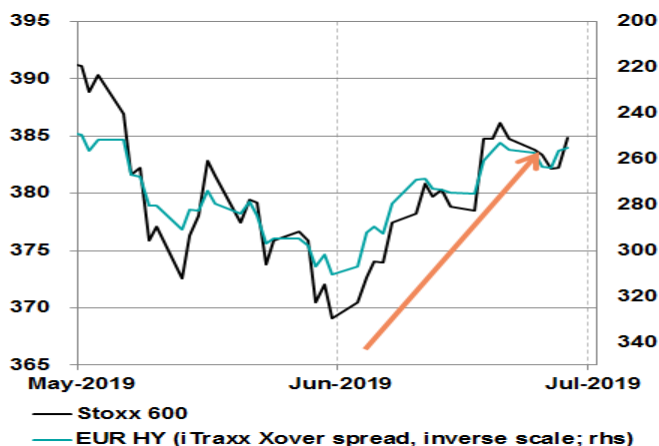
Source: Bloomberg and BNPP AM, as of 28/06/2019

ECB: “Whatever it takes v2.0”

In Europe, ECB President Draghi also changed his tone drastically in recent days. Speaking at the ECB’s annual “Forum on Central Banking” in Sintra, he strongly hinted at the possibility of further policy easing in the months to come – keeping the options open both in the form of deposit rate cuts and extending the asset purchase programme. Similar to the Fed’s message, concern over low inflation is the key driver.

Unsurprisingly, risk assets rallied aggressively in the wake of this speech, with European equities near cyclical peaks and credit spreads back to their tight (Figure 12). Observers have characterised this as another “whatever it takes” moment.

Figure 12: European risk assets buoyed by Draghi...



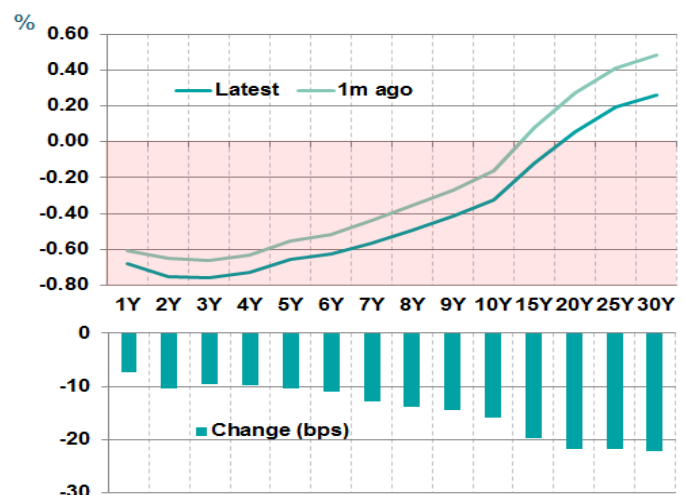
Source: Bloomberg and BNPP AM, as of 28/06/2019

Since a restart of the ECB’s QE programme would almost certainly have to be accompanied by an extension of the current issuer limits and perhaps changes to the link to the capital key, government bond markets in Europe rallied strongly. Indeed, the German sovereign debt yield curve flattened aggressively and bonds with a maturity of up to 17 years are now trading in negative territory (Figure 13).

As in the US, the market reaction to the ECB’s dovish tilt mimics that in the QE years when risk assets and bonds rallied in tandem, and in fixed income markets real rates were compressed and breakeven inflation rates rose. We are seeing reflationary price action, in other words.

In 2015, Bund yields dropped sharply in the anticipation of QE, but they traded broadly sideways when QE buying was actually happening. A similar dynamic may be playing out at this juncture and in terms of our European duration exposure, we have already trimmed our short in recent months as the trigger for higher yields became less clear.

Figure 13: ...as bond yields fall further into negative territory and curves flatten again

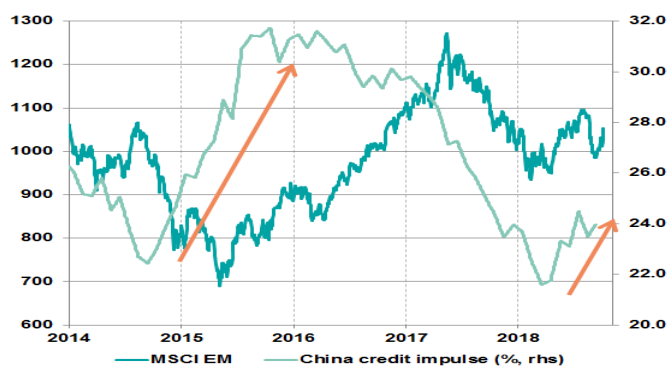


Source: Bloomberg and BNPP AM, as of 28/06/2019

China: not just words, actually easing policy

In China, easing is still ongoing. In contrast to the verbal shift in rhetoric from DM central banks, China’s is the only major economy experiencing actual easing, with indicators such as the credit impulse recovering (Figure 14). While Sino-US trade tensions are clearly the main sticking point for investors, absent an escalation, the stars may slowly be aligning again for EM assets.

Indeed, in 2015/2016, Chinese easing had powerful implications for EM risk assets, albeit with a lag. It was also as an important driver for DM macro developments and markets more broadly. While the current easing efforts by Chinese policymakers are smaller in size and mainly targeted, we continue to monitor this closely as a possible game changer.

Figure 14: China still stimulating

Source: Bloomberg and BNPP AM, as of 28/06/2019

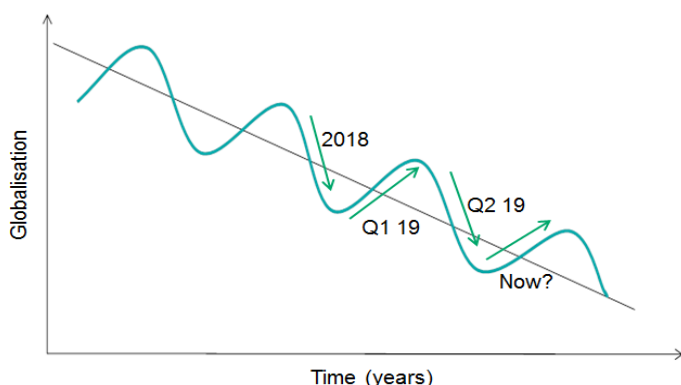
TRADE WAR RISKS – G20 TRUCE

As laid out previously, to us, de-globalisation trends are at the heart of the trade war between the US and China. Put differently, there are issues extending beyond trade in this struggle for global power.

As such, we believe the medium to long-term trend is for a reversal of the globalisation forces of prior decades. But equally, there are shorter-term cyclical gyrations around this de-globalisation trend, as shown schematically again in Figure 15. At times, tensions will ease (as they did in Q1 this year and more recently), and then rise again (as was the case in 2018 and in Q2).

Clearly, following the meeting between President Trump and Xi at the G20, we are currently in a short term de-escalation phase of the trade war. The two heads of state agreed a 'truce/ceasefire' on further tariffs and also agreed to re-start trade negotiations. The US lifted restrictions on Huawei, whereas China agreed to buy large amounts of US goods.

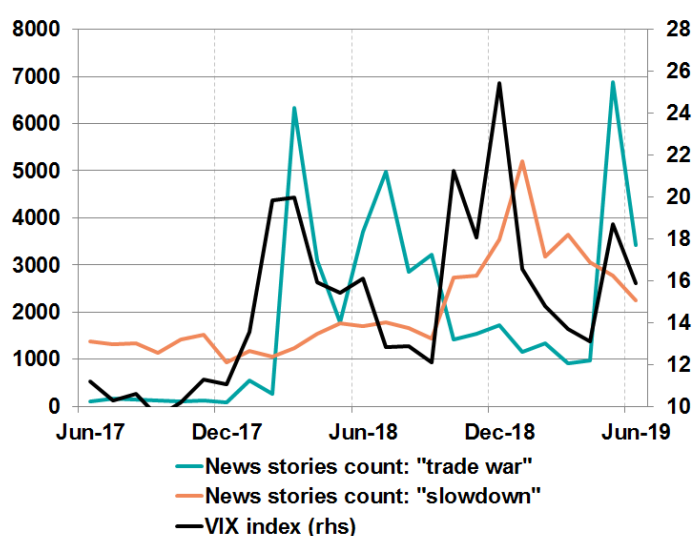
This will support risk assets in the short term, but we note that a truce does not equate to a deal, and further negotiations between China and the US need to be closely monitored in the months to come.

Figure 15: De-globalisation dynamics should oscillate back and forth along a downward trend

Source: BNPP AM, as of 28/06/2019

Interestingly, the market perception of trade war risk has broadly followed our stylised oscillation template, with fears increasing and decreasing quite quickly in recent months. This can be seen in Figure 16, where we look at Bloomberg news articles mentioning the trade war, and comparing this to the VIX index. Clearly, as the market focused on trade war risk, equity volatility spiked, but equally, this abated as the focus shifted elsewhere.

As the situation between the US and China remains fluid, we suspect this tendency to continue in the foreseeable future and we are thus inclined to use these oscillations to tactically trade markets on the basis of our key beliefs. Last month, for example, we added market risk via a long in DM equities in a dip caused by trade war fears.

Figure 16: Markets shifting perception on trade war risk

Source: Bloomberg and BNPP AM, as of 28/06/2019

ASSET ALLOCATION

As discussed above, we expect the current ‘goldilocks’ backdrop to persist, with renewed central bank support acting as an additional prop for markets. That said, there are serious risks that could easily destabilise this sweet spot.

So what is our asset allocation mantra & trading roadmap in this world?

- **Market risk:** tactically trade risky assets

We see the current environment as conducive to buying dips, but also selling excessive rallies. Broadly speaking, we expect equities to trade within a volatile, slightly upward tilted range.

- **Duration:** a battle of reflationary expectations and lower for longer

The renewed dovish tilt by major central banks should reintroduce the lower-for-longer theme in global fixed income markets as real rates are compressed. Inflation expectations should move higher, however. Overall, we are looking to trade tactically in key government bond markets in this environment.

- **Carry/spread assets:** search for yield should continue as real rates fall

This should support higher-yielding assets and we are looking for tactical entry points in carry/high-yield assets to increase our exposure further.

- **Emerging markets:** China stimulus vs. trade war risk

These two forces will continue to oscillate, so we are keeping our EM exposure focused on our key beliefs for now. We are monitoring emerging markets closely as broader relief on the trade war front can unlock value.

- **Mind the risks & diversify:**

We believe that given the unstable nature of the current juncture, diversifying and building robust portfolios remains absolutely key.

Modus operandi for stocks: buy dips

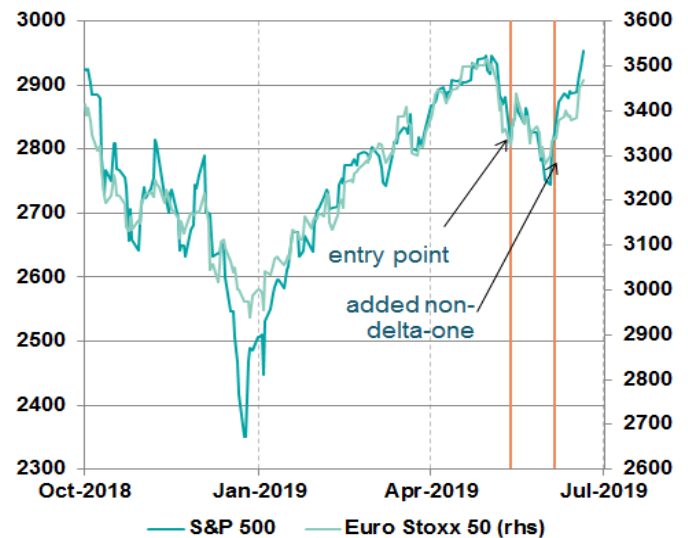
Last month, we increased our market risk by buying DM equities in a dip induced by trade war angst. We have since increased our exposure for flexible portfolios via options as equities initially sold off further (Figure 17).

This summarises our modus operandi for risky assets – we are buyers on dips, but also intend to reduce market risk in excessive rallies. Broadly speaking, we see equity markets as trading within a slightly upward tilted range given the supportive

‘goldilocks’ environment on the one side, but also numerous risks on the other.

A tactical approach to risky assets is warranted, in other words.

Figure 17: Bought the dip – long US & EMU equities

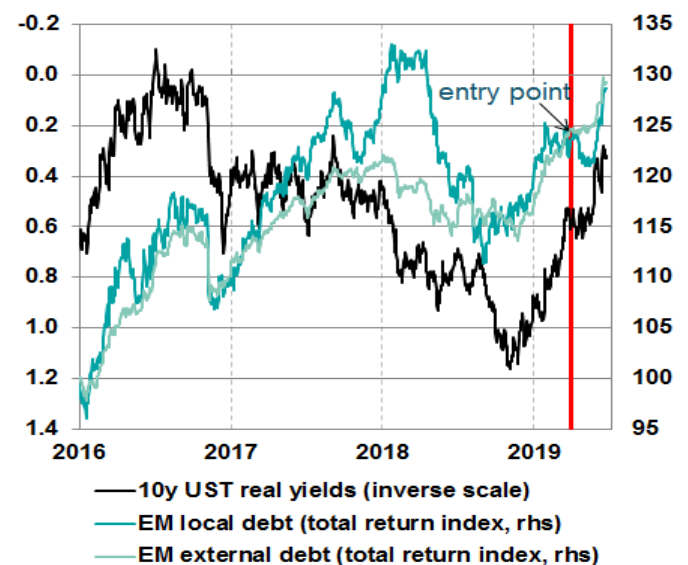


Source: Bloomberg and BNPP AM, as of 28/06/2019

Search for yield makes carry assets attractive

Elsewhere, we still believe the dovish stance by the Fed and other major central banks will still drive the search for yield dynamic. Lower real yields in particular should favour being long carry assets. We continue to hold a long in EM hard currency debt. This USD exposure with a high carry (roughly 6%) has done well recently as central banks pivoted (Figure 18). Please note that this trade helps us to somewhat neutralise the underweight in duration given our short in core EMU duration.

Figure 18: Stable/lower real yields to support carry assets



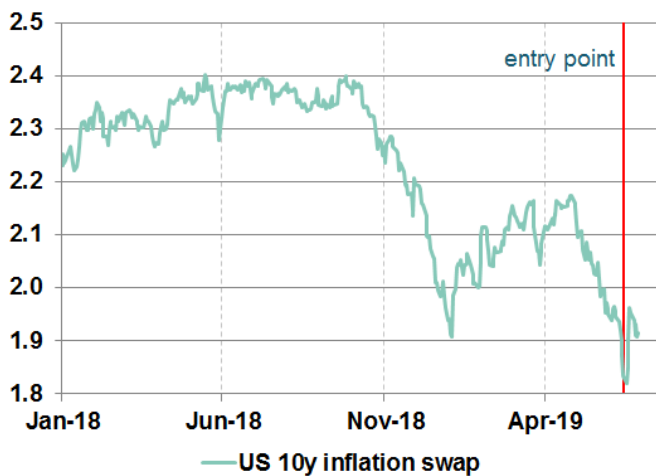
Source: Bloomberg and BNPP AM, as of 28/06/2019

Central banks spur reflation hopes

In the world's main government bond markets, recent central bank commentary has resulted in interesting price action. While nominal yields have fallen, underneath the bonnet, we note that in QE-like fashion, real rates have been depressed and breakeven inflation has moved higher. The market is placing reflationary hopes on central bank policies, in other words.

Ahead of these central bank pivots, we went long inflation in the US (positioning for higher market inflation expectations). While we have the Fed 'on side' now, the main rationale behind this tactical trade was valuation given the prior sharp drop in break-evens (Figure 19).

Figure 19: Dovish central banks to drive reflation hopes



Source: Bloomberg and BNPP AM, as of 28/06/2019

In terms of our broader duration exposure, we continue to be short core EMU duration, albeit less so given unwinds in prior months. Given the shift in the stance of central banks, the case for higher yields is becoming a more medium-term theme, and even at current valuations, the trigger for higher yields is less clear and our conviction is fading.

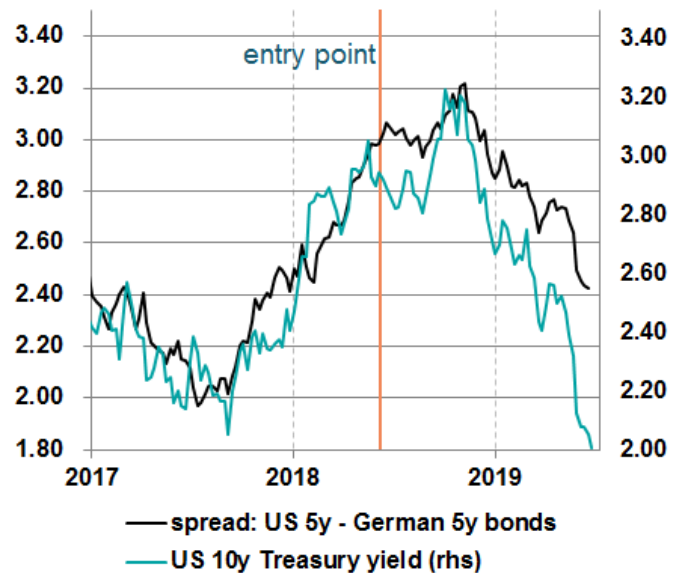
Building robust portfolios

As discussed at length in recent months, we believe that building robust portfolios and holding diversification trades is absolutely key at this juncture.

We currently hold several trades with asymmetries/hedging characteristics including:

- **Long five-year US bonds versus five-year Bunds** – originally entered because of stretched valuation differences, but also because we see it as having good defensive characteristics in risk-off environments. US yields should have “more room to drop” in an economic slowdown, thus a good broad portfolio diversifier. That said, in light of recent strong performance (Figure 20) we are reviewing the tactical merits of this trade.

Figure 20: 5y UST vs. Bunds has performed well



Source: Bloomberg and BNPP AM, as of 28/06/2019

- **Long CAC 40 (France) and short DAX (Germany)** – We see ‘old China’ being challenged and believe that protectionist forces are here to stay. With Germany more exposed than France to de-globalisation, this relative value trade aims to limit our exposure to a significant escalation in trade tensions.
- **Short a basket of Asian currencies vs. USD** – This is another hedge to an escalation in Sino-US tensions with a high correlation between our basket (KRW, SGD, TWD and THB) and USD/CNY. With almost no negative carry (compared to the high negative carry in other EM FX crosses), we can afford to hold this hedge for extended periods.



STRATEGIC OVERVIEW OF KEY POSITION CHANGES IN Q2 2019

The BNPP AM MAQS team took the following asset allocation decisions:

APRIL:

LONG EM HARD CURRENCY DEBT **OPENED** **01/04/19**

- Searching for yield and given China's stimulus, we opened this position but remained hedged on the currency risk side.

SHORT BUNDS **REDUCED** **01/04/19**

- We reduced the size of our overall underweight position, cutting half of the tactical underweight in bunds entered into in mid-February for bond heavy portfolios.

LONG CAC/DAX **INCREASED** **10/04/19**

- Consolidation might be finished and the overall picture is still strategically bullish. Therefore, doubled our exposure to this trade.

MAY:

SHORT DM EQUITY **CLOSED** **02/05/19**

- We hit the hard stop loss levels of our tactical short in DM equity markets and closed this trade in early May.

LONG DM EQUITY **OPENED** **10/05/19**

- As our 'fragile goldilocks' base case suggests buying dips and we ultimately expect a resolution of the US-China trade conflict, we used the recent market dip to open a long position, split 50:50 between US and European equities.

JUNE:

LONG DM EQUITY **INCREASED** **05/06/19**

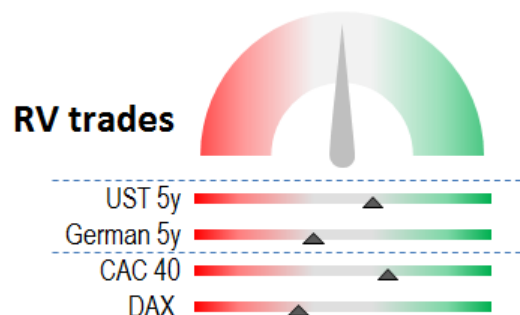
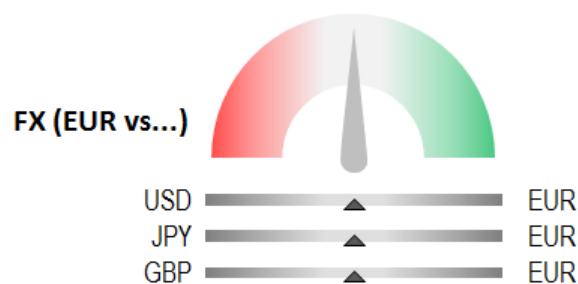
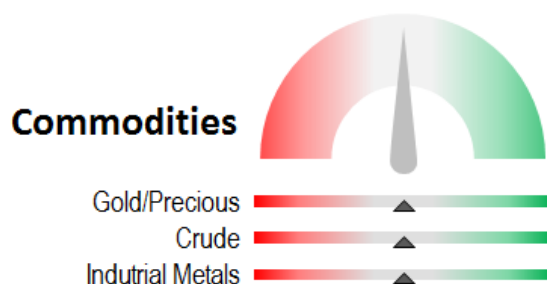
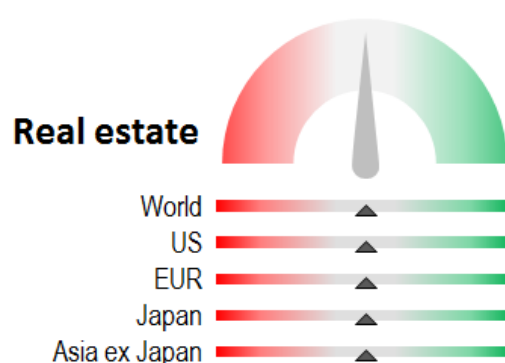
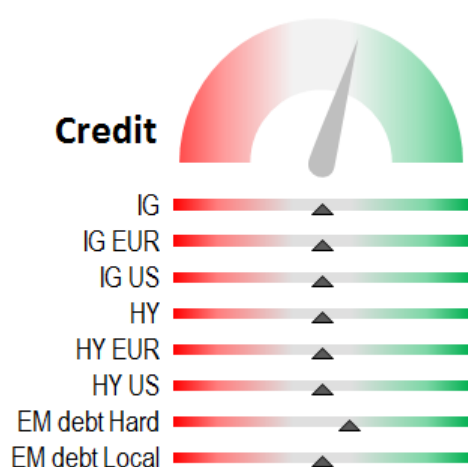
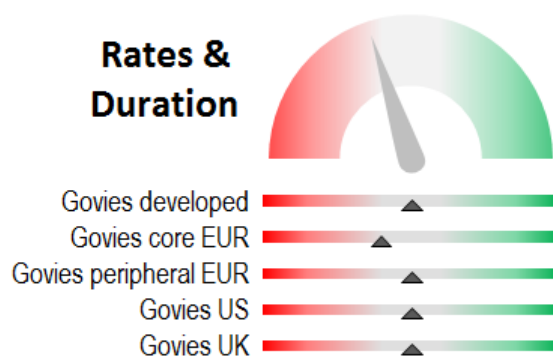
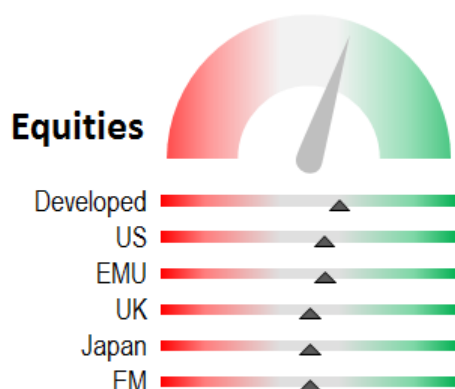
- We bought tactical equity upside options for our flexible funds which can take positions in such instruments, taking advantage of the renewed dip in equity markets in early June.

LONG US BREAK EVEN **OPENED** **14/06/19**

- With breakeven inflation rates back at December lows and the dovish stance of the Fed likely to push inflation expectations higher in the short term, we opened a long position in 10-year US inflation.



CORE ASSET ALLOCATION DASHBOARD²



² The dashboard shows the asset allocation in our portfolios and reflects the decisions of the Investment Committee of the Multi-Asset team at MAQS. Views expressed are those of the Investment Committee of MAQS, as of July 2019. Individual portfolio management teams outside of MAQS may hold different views and may make different investment decisions for different clients.

DISCLAIMER

BNP PARIBAS ASSET MANAGEMENT UK Limited, “the investment company”, is authorised and regulated by the Financial Conduct Authority. Registered in England No: 02474627, registered office: 5 Aldermanbury Square, London, England, EC2V 7BP, United Kingdom.

This material is issued and has been prepared by the investment company. This material is produced for information purposes only and does not constitute:

1. an offer to buy nor a solicitation to sell, nor shall it form the basis of or be relied upon in connection with any contract or commitment whatsoever or
2. investment advice.

Opinions included in this material constitute the judgment of the investment company at the time specified and may be subject to change without notice. The investment company is not obliged to update or alter the information or opinions contained within this material. Investors should consult their own legal and tax advisors in respect of legal, accounting, domicile and tax advice prior to investing in the financial instrument(s) in order to make an independent determination of the suitability and consequences of an investment therein, if permitted. Please note that different types of investments, if contained within this material, involve varying degrees of risk and there can be no assurance that any specific investment may either be suitable, appropriate or profitable for an investor's investment portfolio.

Given the economic and market risks, there can be no assurance that the financial instrument(s) will achieve its/their investment objectives. Returns may be affected by, amongst other things, investment strategies or objectives of the financial instrument(s) and material market and economic conditions, including interest rates, market terms and general market conditions. The different strategies applied to the financial instruments may have a significant effect on the results portrayed in this material.

This document is directed only at person(s) who have professional experience in matters relating to investments (“relevant persons”). Any investment or investment activity to which this document relates is available only to and will be engaged in only with Professional Clients as defined in the rules of the Financial Conduct Authority. Any person who is not a relevant person should not act or rely on this document or any of its contents.

All information referred to in the present document is available on www.bnpparibas-am.com.

As at July 2019.

© BNP Paribas Asset Management UK Limited 2019

