FOR PROFESSIONAL INVESTORS – 2 March 2020

ASSET ALLOCATION MONTHLY

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

STILL LOOKING TO BUY DIPS

KEY THEMES & MACRO ENVIRONMENT

- **Goldilocks still in place –** the global economy started the year on firmer footing, but coronavirus disruptions will inevitably hit it. We expect a recovery, especially given that there is plenty of policy stimulus.
- **Coronavirus risk surmountable –** market pricing has shifted from reflation to growth worries. We see risks more balanced around our base case on a 12-month horizon.
- **Equity corrections have restored the risk/reward payoff –** we rely on our ‘goldilocks base case’ and our market dynamics signals to buy dips.

ASSET ALLOCATION: ASSET VIEWS

- **Equities: bought the dip –** we bought US and emerging market (EM) equities in early February as per our roadmap. We are open to adding to our positions.
- **Goldilocks trades: long emerging market USD debt and EMU REITs –** we continue to like carry assets, supported by the goldilocks environment.
- **Rates: short core EUR, long US inflation, short USTs via options–** we still see fixed income markets as rich, but virus fears dominate in the short term.
- **FX: closed long USD –** our long USD versus EUR and GBP had a good run this year. Our technical and fundamental assessment is more balanced now.
- **Long gold –** gold still shines given the generally easy monetary policy, falling real yields and in both of our main risk scenarios – recession and reflation.
- **De-globalisation trades –** we are long CAC/DAX and long USD/CNY as we remain strategically bearish on globalisation.

ASSET ALLOCATION: PORTFOLIO CORNER

- **Risk utilisation –** we increased our active risk by buying US and EM equities.
- **Factor exposures from core views –** our factor exposure is long market risk and neutral on most other factors, including duration.
- **Specific/tactical trades –** we have implemented four trades outside of our MFA portfolio optimiser; these help us diversify our portfolios.

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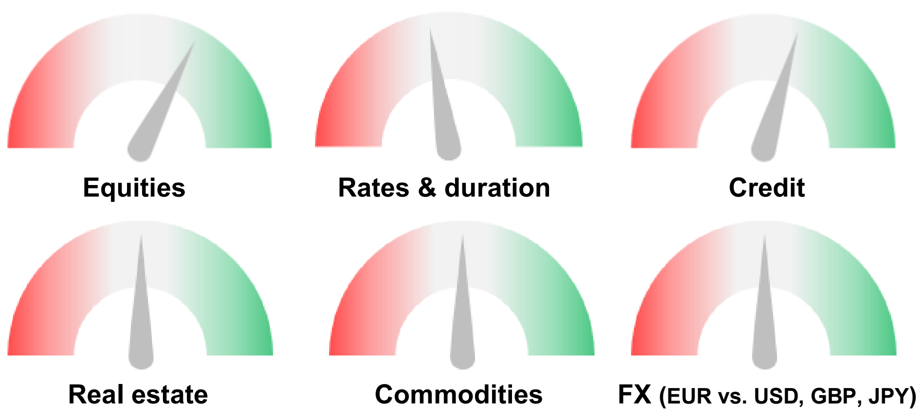
Core asset class views*



Risk utilisation**

* The core asset class views dashboard reflects the key views of the Investment Committee of the Multi-Asset team at MAQS. Other specific/tactical trades may be implemented in addition and are listed at the end of this publication. ** Risk utilisation/active risk is a measure of the tracking error (as a % of maximum tracking error) of an unconstrained theoretical portfolio, derived from core asset class views and from additional specific/tactical trades.

MARKET REVIEW: FEBRUARY 2020

After equities dropped in late January, investor sentiment turned positive, pushing risky assets higher during the first half of February, but concerns around the spread of the coronavirus ramped up in the second half of the month, triggering a sharp correction in risky assets. Equities retraced, with developed markets dropping by 7% and emerging markets 2% on the month.

The renewed risk-off mood was also visible in bond markets: German Bund prices rose by 1.4% and US 10-year yields made new historic lows, moving US treasury prices higher (2.3%), while EMU 'peripheral' bonds steadied. In US credit markets, investment-grade bonds (0.8%) outperformed high-yield bonds (-0.8%).

Risky assets initially recovered in February, but investor concerns over the spreading coronavirus caught the spotlight. The Chinese government took firm measures and instituted a quarantine belt to contain the virus. These appear to have limited the outbreak and allowed the total number of reported cases to stabilise. However, industrial activity in China is struggling to resume after the Lunar New Year holiday. A growth slowdown is threatening Beijing's goal of doubling real GDP at the end of 2020 from 10 years ago. In the second half of the month, the number of coronavirus cases rose outside of China, especially in South Korea and Europe. As a results, new containing measures have been taken by local governments in the attempt to stop virus spreading.

To support the economy, the People's Bank of China released CNY 150 billion (USD 21.4 billion) of funds into the financial system through 7-day and 14-day reverse repo operations. In the US, Federal Reserve Chairman Powell said that the Fed was monitoring the impact of the virus as it might lead to disruptions in China that could spill over into the global economy. However, Powell acknowledged that the downside risk was limited and the US economy was growing at a moderate pace, with a strong labour market.

In currency markets, the US dollar strengthened further on the euro (1.0%). The Chinese renminbi weakened, dropping 1.4% against the US dollar, amid virus concerns and as a result of the PBoC's easing measures.

As concerns over the virus and its economic implications ramped up, cyclical commodities corrected: the broad commodity index dropped by 6%, led by the energy sector (-8%), with oil tumbling by 10%. Conversely, within safer commodities, gold gained in February, with a strong positive YTD performance.

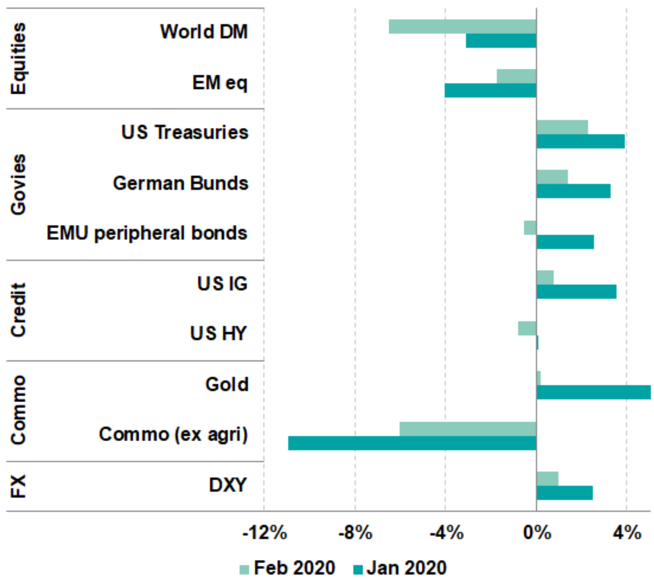
On the data side, both the US ISM manufacturing (50.5 from 48.5) and non-manufacturing (55.5 from 55) indices rose, with manufacturing reaching a seven-month high. Non-farm payrolls surprised to the upside, adding 225 000 employees to January's number. In Europe, German readings disappointed, with industrial production and factory orders falling by 3.5% (vs. -0.2% cf.) and 2.1% (vs. 0.6% cf.), respectively.

In China, PMI readings weakened in January: both the manufacturing (51.1 from 51.5) and services (51.8 from 52.5) PMIs fell, although the latest data do not capture the coronavirus effect.

In the UK, PMI readings improved, with manufacturing activity expanding (51.9 vs 49.7 cf, from 50), services readings came in slightly below expectations (53.3 vs 53.4, from 53.9). Although it is too early to say, the latest data looks encouraging for Boris Johnson's government. The country has entered in the so-called transition period during which Johnson will try to reach a trade agreement with the EU before the end of 2020.

In the US, the political backdrop is dominated by the Democratic primaries and the 2020 midterm and presidential elections. The latest polls have Bernie Sanders leading the race for the Democratic nomination, followed by Joe Biden and Michael Bloomberg. On the Republican side, the consensus around President-in-Office Trump remains strong.

Figure 1: Coronavirus fears hit risk sentiment in February



Source: Bloomberg and BNPP AM, as of 28/02/2020

GOLDILOCKS ENVIRONMENT REMAINS…

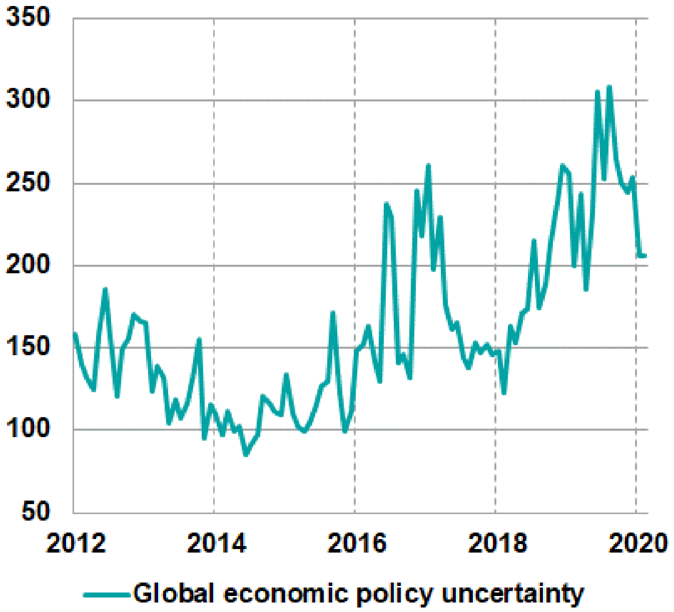
At the beginning of the year, our assessment was that our base case macroeconomic and market environment, one that we referred to as a 'fragile goldilocks', was more firmly in place than in 2019. This involves moderate growth and inflation in major economies, allowing central banks to keep monetary policy loose, supporting risky assets all else equal.

Three key developments supported risky assets

Three developments around the turn of the year made us more confident that goldilocks had become less fragile.

First, the signing of a 'phase one' deal between the US and China helped to dispel some of the uncertainty around the trade tensions between both economic giants. Figure 2, for example, shows that global policy uncertainty, which rose last year with trade tensions, has eased this year.

Figure 2: Trade tensions easing so far this year

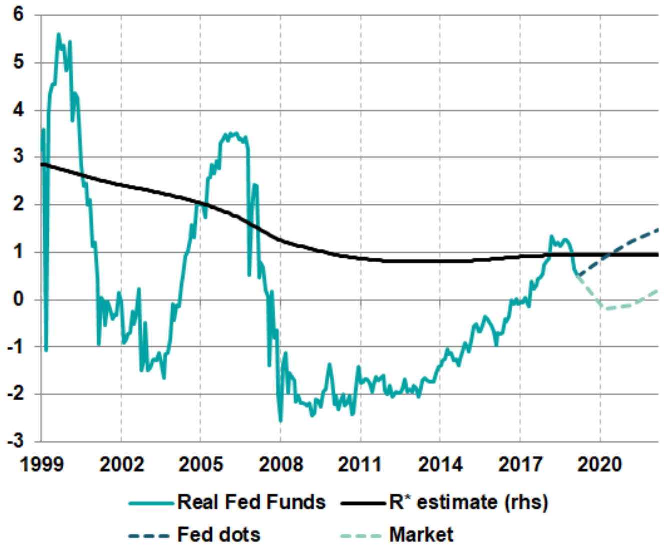


Source: Bloomberg and BNPP AM, as of 28/02/2020

Second, the shift towards monetary easing and dovish tilts by major central banks in 2019 supported risky assets and acted as a tailwind to the global economy. This has been more visible in China and the US.

In China, the authorities embarked on targeted monetary and fiscal easing to reduce the blow associated with trade tensions. In the US, the Fed adopted a more accommodative stance by cutting rates three times in 2019. We gauge the Fed's stance by comparing the real policy rate with estimates of the real neutral rate of interest. A few months ago, the real policy rate fell to below the neutral real rate, suggesting that the Fed went from a clear tightening stance in 2018 to an easy one in 2019 (Figure 3). Furthermore, the Fed has been quite clear that it would need to see a persistent rise in inflation towards and above its target before considering tightening again.

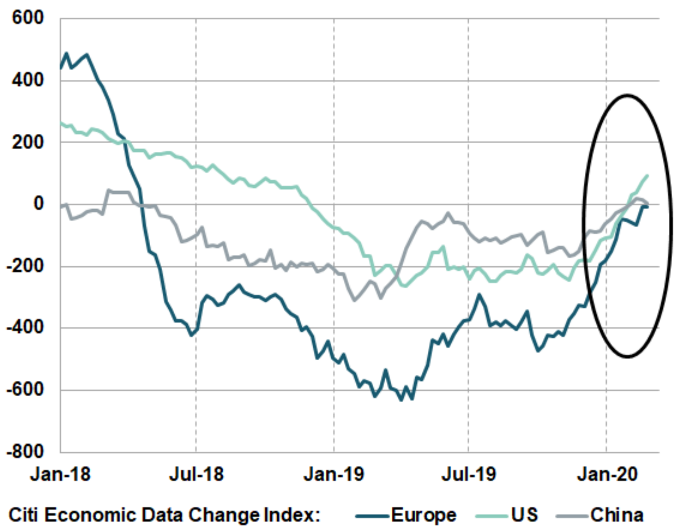
Figure 3: Back to an accommodative Fed stance



Source: Bloomberg and BNPP AM, as of 28/02/2020

Finally, since the turn of the year, there have been signs of stabilisation, notably in manufacturing. Figure 4, for example, shows that various large economies have continued to improve. The strength has been notable in the US where employment growth remains robust and consumer confidence is close to cyclical highs. Of course, the latest data does not include the effect of the coronavirus. However, we can safely say that any repercussions of the virus will hit a rather robust US economy. More on this below.

Figure 4: Data stabilising in major economies pre-coronavirus

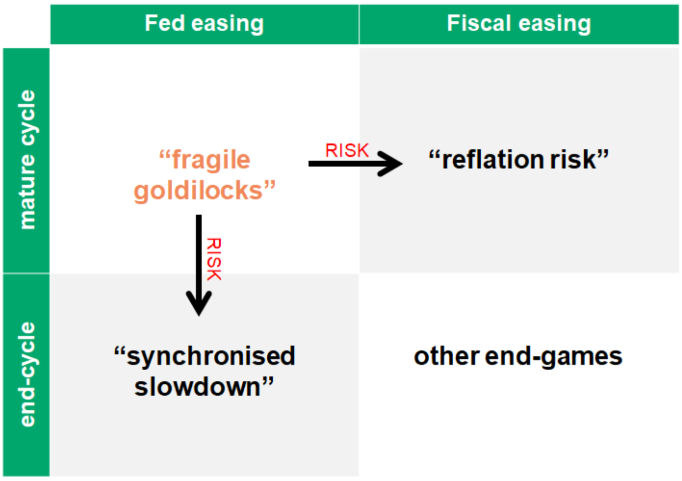


Source: Bloomberg and BNPP AM, as of 28/02/2020

…BUT SEVERAL CHALLENGES AHEAD

Given the developments supporting our goldilocks case, we assigned a slightly higher probability to a reflationary environment over the next 12 months than to a recessionary one (Figure 5).

Figure 5: Key risk scenarios



Source: BNPP AM, as of 28/02/2020

Balance of risks challenged

But over the last few weeks, investor worries have grown again due to the coronavirus outbreak and the risk of a leftist Democratic presidential candidate in the US elections.

In contrast, we still view the balance of risks to favour our goldilocks base case over the next 12 months. Put simply, we believe the combination of less trade uncertainty, stabilising Chinese growth and monetary stimulus should spur a global recovery in the medium term, and maybe eventually even generate more inflation, even if coronavirus fallout hurts the Q1 outlook.

As for a growth slowdown, we had already identified the US election and renewed US-China tensions as sources of uncertainty over the next 12 months. The coronavirus took us all by surprise and we acknowledge the risks that it entails to Chinese and global growth, at least in the short term. Notably, we expect Chinese growth to fall in Q1 and for the slowdown to spill over to the rest of the world via three channels: weaker Chinese demand (including tourism), lower Chinese exports, and supply chain disruptions.

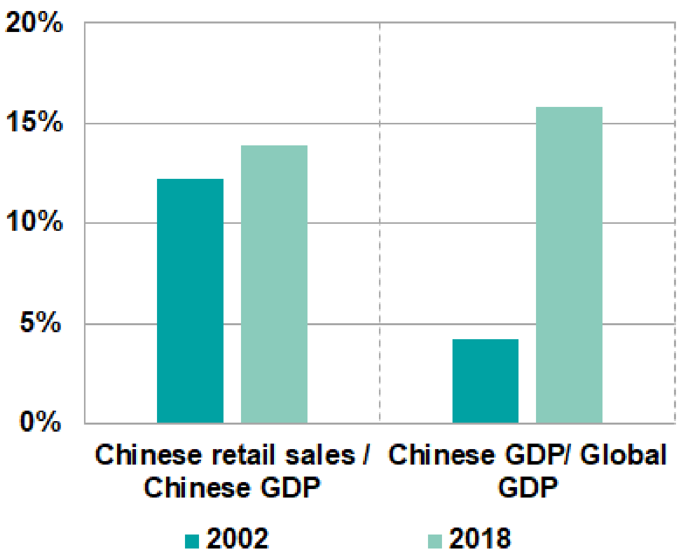
Next we elaborate on the risks around the coronavirus and the US election and explain why we are still optimistic on a 12-month investment horizon.

Coronavirus – cautiously constructive

The virus has led to an economic standstill in China. The negative effect on short-term activity indicators will be visible in the Q1 figures. Some analysts are calling for Q1 GDP growth of just 2% YoY after 6.4% a year ago. The key question is now whether those negative implications are temporary or more permanent.

It is true that the Chinese economy is now a lot larger than around the SARS epidemic in 2003. It is eight times bigger now and accounts for roughly 16% of the global economy (Figure 6). This means that the damage to the global economy of a standstill could be material. Furthermore, China is more integrated globally. This means the virus could spread to places that are less able to fight it, notably in the developing world.

Figure 6: China's economic size means the virus is a global threat

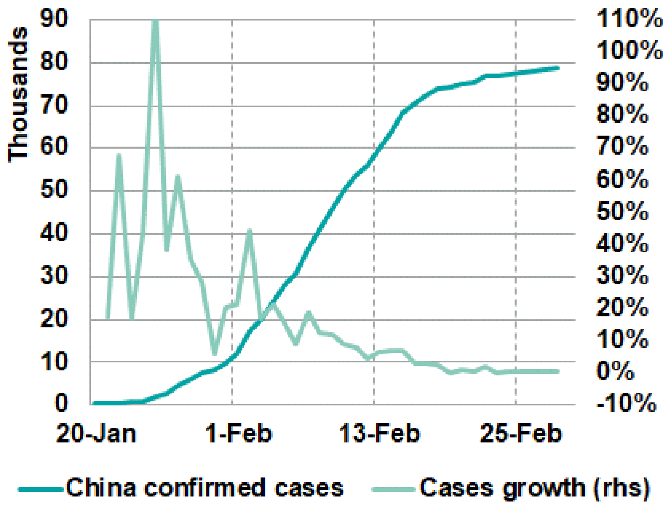


Source: Bloomberg and BNPP AM, as of 28/02/2020

However, there are reasons to be optimistic too. We know, for instance, that these pandemics tend to be short lived, as was the case with SARS, and that once they fade, economic activity bounces back strongly. We also know that the Chinese authorities have reacted firmly and are much better equipped than in the past. Finally, the mortality rate of the virus (around 3.5%) is a lot lower than for SARS (about 9%).

The latest data on the spread of the virus in China is encouraging. The number of confirmed cases has started to drop gradually, even after a spike associated with a new criterion for assessing new cases (Figure 7).

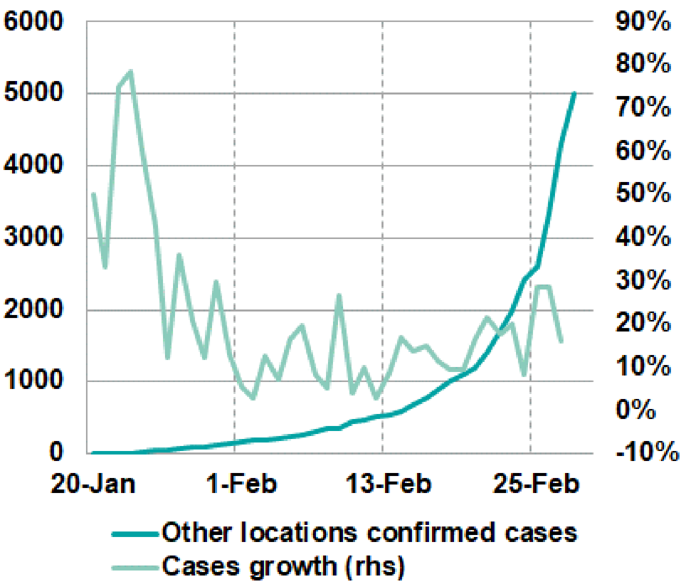
Figure 7: Signs that the virus is being contained in China



Source: Johns Hopkins University CSSE and BNPP AM, as of 28/02/2020

The picture is less rosy outside of China as the number of new cases has risen in recent days, but it is still low compared to the cases in China (Figure 8). The main risk on the international front is that the virus spreads more quickly than anticipated, notably in the developing world.

Figure 8: Number of cases abroad are fewer but increasing



Source: Johns Hopkins University CSSE and BNPP AM, as of 28/02/2020

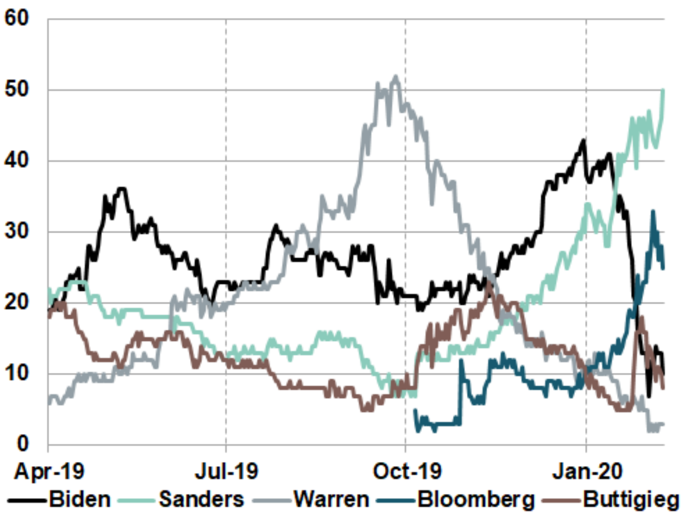
Overall, we are cautiously optimistic and do not see a major economic impact with long-term consequences. The number of new cases in China has been dropping gradually and the economic bounce can be material given the easy monetary policy backdrop.

US elections: economic backdrop matters

Another important risk for investors is the US presidential election in November and, in particular, the potential for a victory by a left-leaning Democratic candidate.

According to the implied probability based on booking agencies, the most likely candidate for the Democratic Party is Bernie Sander (Figure 9). It is interesting to note that two candidates who were popular a few months ago – Elizabeth Warren and Joe Biden – have lost traction recently. While the race is still wide open, Sanders' message has resonated with voters.

Figure 9: Sanders leading the US Democratic nomination race

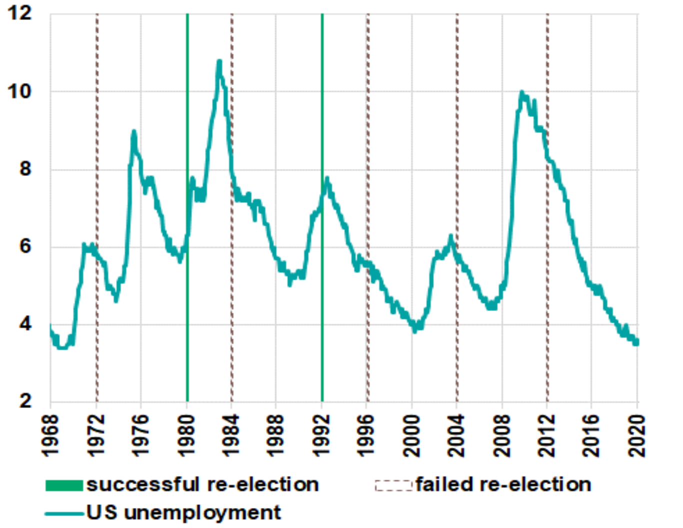


Source: Bloomberg and BNPP AM, as of 28/02/2020

A left-leaning democratic nomination is a risk to financial markets because investors would likely fear market unfriendly policies. Market participants are aware of Sander's rise, especially after his strong showing in the Iowa caucus and his victory in New Hampshire. However, consensus still has a base case for a Trump victory in the November elections.

We are cautiously constructive on risky assets in the face of this risk mainly for two reasons. First, history shows that incumbents have a higher chance of being re-elected. Second, re-election is usually easier when the economic backdrop is strong. So far, this is exactly the case with the US economy (Figure 10).

Figure 10: A strong US economy usually favours the re-election of the incumbent



Source: Bloomberg and BNPP AM, as of 28/02/2020

EQUITY DIPS AND BOND MARKET RALLIES

In our previous monthly, we noted that the short term risk-reward of adding equity risk near new all-time highs was not great, even though our firmer goldilocks base case endorsed the strategic backdrop for risky assets. We flagged that we would buy dips in equity markets if deemed to be driven by factors that did not alter our base case.

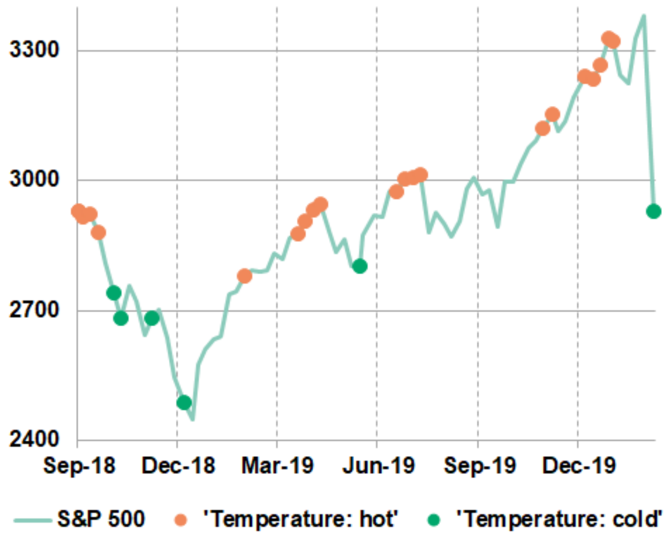
The coronavirus outbreak is an example of such a shock. We see it as material enough to hurt markets in the near term, but not damaging enough to derail growth prospects over the medium term. If anything, it reinforces the policy put offered by central banks. As a result, we bought the dip in US and emerging market equities in early February and are looking for opportunities in the bigger dip in recent days.

Proprietary market dynamics indicators suggested buying the dip

Buying market dips is easier said than done. Buy too early and losses will quickly pile up. Buy too late and you run the risk of buying back at even higher levels. We time dips by relying on a suite of proprietary tools that we refer to as 'market dynamics indicators'. These tools are composed of two groups of measures. Our 'market temperature' tools help us gauge whether the market is hot (overbought) or cold (oversold). Our 'technical dynamic analysis' allows us to time the market with the help of technical tools.

In late January, our market temperature indicators were flagging that major equity markets were hot and therefore ripe for a correction. In particular, positioning and sentiment inputs were as stretched as they had been before the equity market corrections of 2019. As the correction took hold, the market temperature went from hot to green (Figure 11).

Figure 11: Market temperature: from hot to green

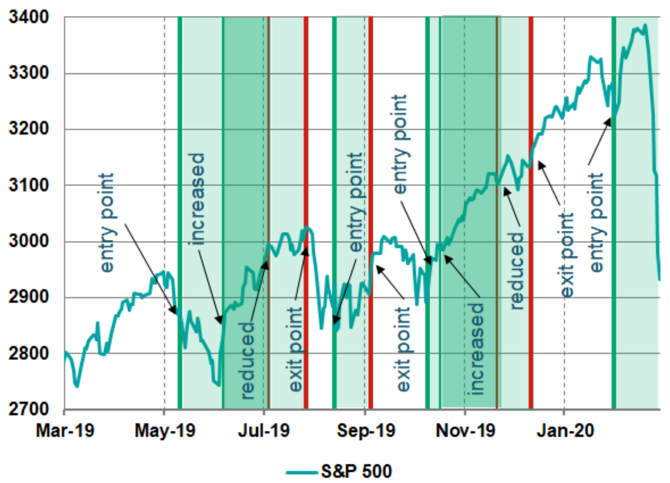


Source: Bloomberg and BNPP AM, as of 28/02/2020

At the same time, our technical indicators signalled that a correction was likely, but within a bullish cyclical configuration over the medium term, meaning that the correction was unlikely to gain traction.

These signals together with our fundamentally constructive view led us to buy the equity dip. Figure 12 shows this has been our modus operandi since the Fed 'pivoted' in early 2019. The waves of de-globalisation uncertainty and more recently, the coronavirus, led to market oscillations that we could exploit using our fundamental views and our 'market dynamics' tools.

Figure 12: Buying the dip in equities



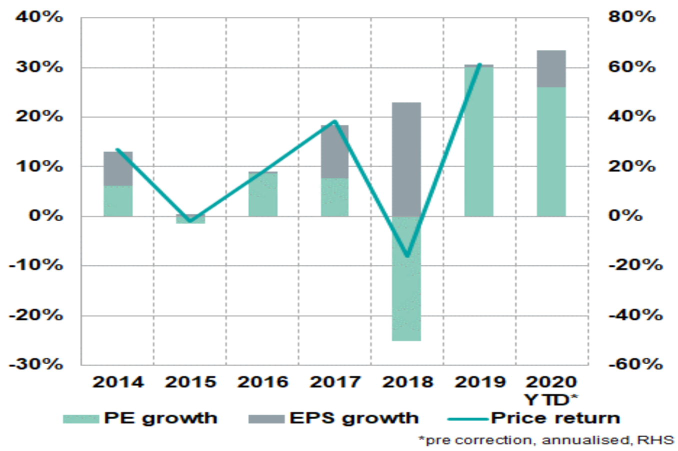
Source: Bloomberg and BNPP AM, as of 28/02/2020

Equities: between growth fears and policy stimulus

One of the key features of the equity market rally of 2019 was that it was driven by a shift toward more expansionary monetary policy by major central banks and as a result by an expansion of price/earnings (P/E) multiples in major markets.

Before the recent risk-off wave, so far this year, equity markets were experiencing a similar dynamic. P/E multiples have been driving a rally, even if the virus and the US election are now bigger risks to global growth (Figure 13).

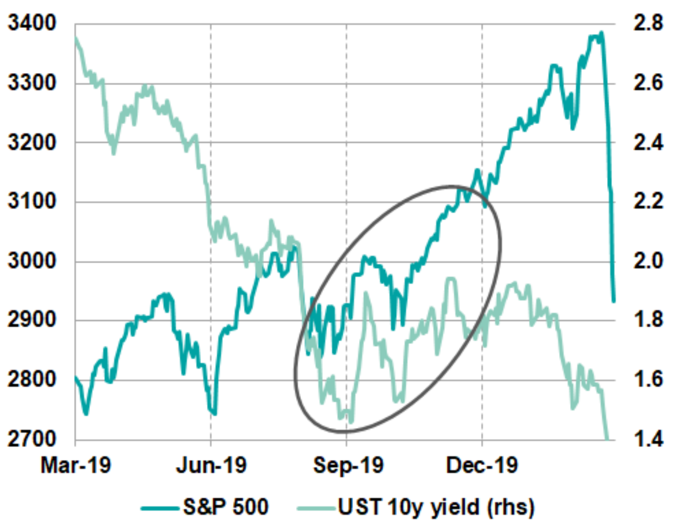
Figure 13: PE expansion a major driver of the equity rally



Source: Bloomberg and BNPP AM, as of 28/02/2020

We see such P/E expansion as consistent with the goldilocks environment. At the turn of the year, equity markets were enjoying the sweet spot of reduced trade tensions, renewed monetary stimulus and stabilising macroeconomic data. Such a sweet spot had a reflation 'taste' as equity markets rallied along with gradually rising bond yields. That set-up has been clearly disrupted by the coronavirus (Figure 14).

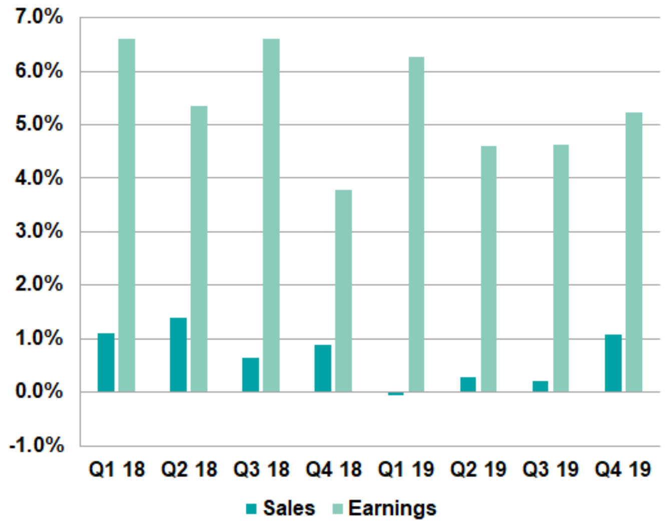
Figure 14: UST yields falling again after rising in Q4 19



Source: Bloomberg and BNPP AM, as of 28/02/2020

As growth concerns are at the heart of the latest dip in equities (and bond yields), we believe it is crucially important to monitor corporate earnings in 2020. Q4 2019 earnings reports showed that US companies delivered strong earnings and sales surprises (Figure 15). European company reports were not bad either, but we know that the acid test will be in the data and in particular the macro data beyond the virus effects.

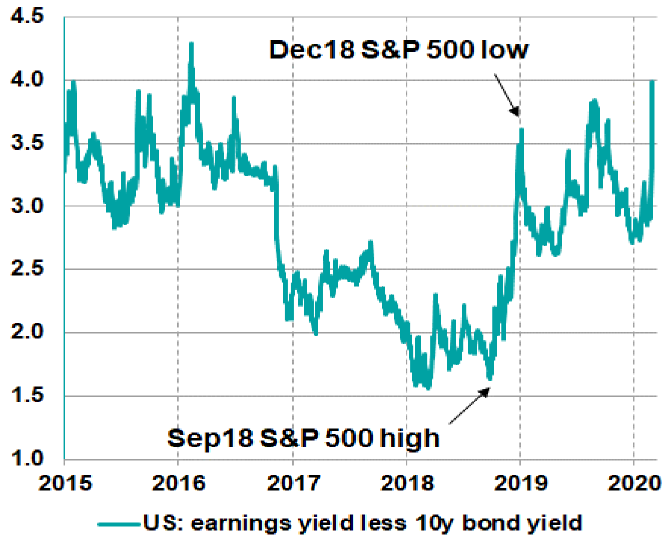
Figure 15: US corporate earnings surprised to the upside in Q4 2019



Source: Bloomberg and BNPP AM, as of 28/02/2020

As mentioned earlier, we are cautiously optimistic on both the medium-term damage of the coronavirus outbreak and the risks around the US elections. As such, we remain in a buy-on-dips mode. Lower bond yields are pricing in growth worries. That means that equity valuations relative to bonds still look attractive (Figure 16).

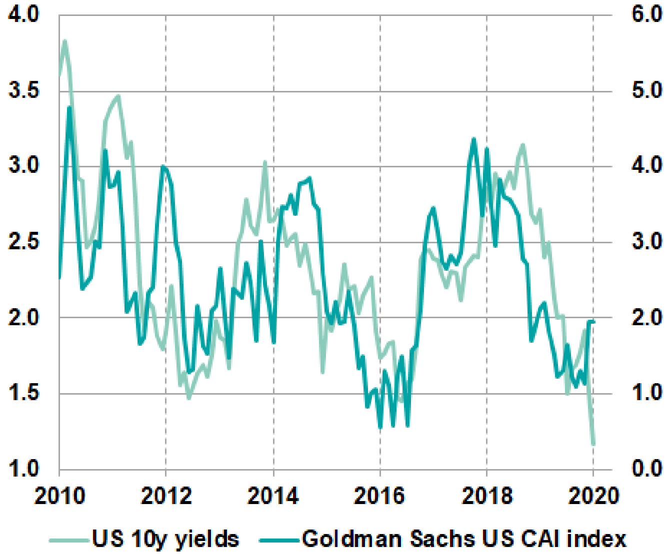
Figure 16: Lower UST yields make equity valuations shine



Source: Bloomberg and BNPP AM, as of 28/02/2020

Furthermore, if our view is right that the virus will have a passing effect on growth, bond yields will at some point look too low relative to the economic cycle. This is especially true for the US where growth is still robust and appears to be more insulated from the virus epicentre (Figure 17). We will be on the lookout for opportunities in both bond and equity markets.

Figure 17: Low UST bond yields at odds with the strong US economy



Source: Bloomberg and BNPP AM, as of 28/02/2020

ASSET ALLOCATION: ASSET VIEWS

Here we detail our current views across asset classes, and the views stemming from major macro/market themes. Broadly speaking, our modus operandi is to be strategically long risky assets and to be reactive around it. We also favour positions with an attractive risk/reward that diversify our asset allocation.

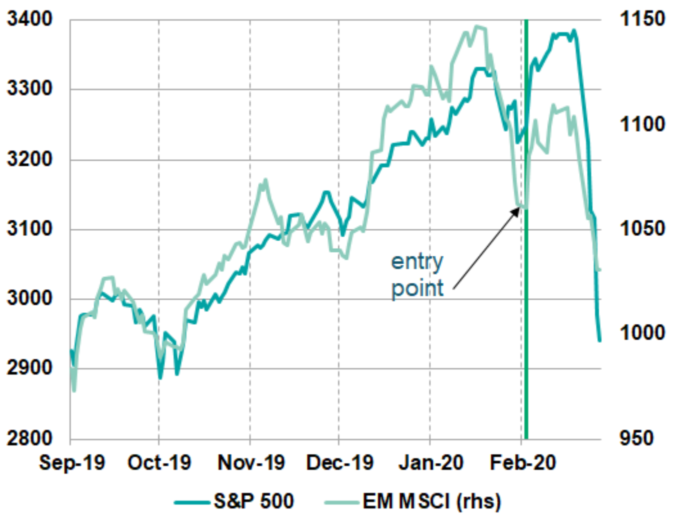
A detailed discussion of the portfolio considerations and specific trade implementation around these views can be found further below.

Equities: bought the dip

On 3 February, we bought the dip in US and EM equities (Figure 18). As discussed above, our fundamental assessment still favours risky assets. We used the initial coronavirus scare as an entry point in conjunction with signals from our market dynamics tools. Our view that goldilocks is more entrenched gives us the confidence to add to this exposure if there is a further dip that we deem temporary. As such we are closely monitoring very recent price action.

We bought the US equity market because US macro data is still robust and Q4 earnings showed positive surprises, admittedly from low consensus forecasts. As explained above, the bond market is also a big support for equity markets. The Fed has signalled that the bar for tighter policy is high at this point. Bond yields have fallen to levels consistent with a material growth scare.

Figure 18: Buying the dip in US and EM equities



Source: Bloomberg and BNPP AM, as of 28/02/2020

Our choice of EM equites was predicated on emerging markets' growth potential and appealing valuations. We believe the effect of the coronavirus on growth will be temporary. Furthermore, the Chinese authorities have the fiscal room to add stimulus in the case that the domestic growth prospects worsen. Indeed, the PBoC announcement of monetary policy easing in early February coincided with the trough in EM equities. The roughly 10% correction in EM equities had made the risk/reward for long positions more attractive.

Goldilocks trades: long EM HC debt and EMU REITs

We still expect the factors behind our fragile goldilocks base case, especially continued central bank easing, to prolong the search for yield and to allow carry strategies to perform. The recent fall in yields in major bond markets has also helped carry strategies.

We are overweight EM hard currency debt for three reasons.

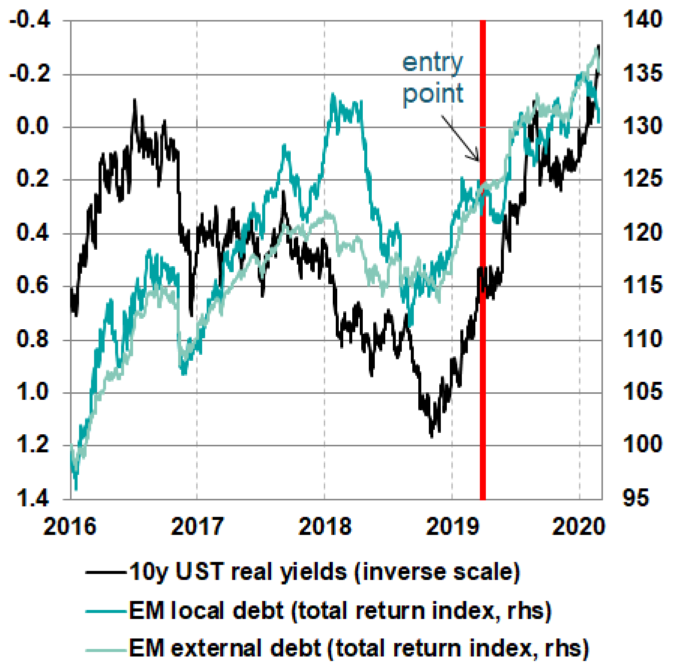
First, EM debt does well in times of central bank easing and stable or falling real yields (Figure 19).

Second, it is one of the few liquid fixed income asset classes that yields roughly 5% in USD terms.

Finally, EM spreads tend to compress when Chinese policy is being eased. This is the case now.

We note that the strong returns of H1 2019 and January 2020 were fuelled by the rally in US Treasuries. EM spreads moved little by comparison and began to compress from mid-2019 as Chinese data has started to stabilise.

Figure 19: Low US real yields are a support for EM hard currency debt



Source: Bloomberg and BNPP AM, as of 28/02/2020

Real estate investment trusts (REITs) are another market that should be supported as investors seek for yield.

We added a long eurozone REITs position in late 2019 for three reasons: prices were close to their five-year lows relative to net asset value; REITs offered an attractive yield; and being a real asset, REITs have defensive characteristics, which are helpful in the case of a downturn or higher inflation.

We implemented this view as a relative value trade against large-cap equities and core bond markets. This ensures that the exposures of this trade do not significantly counteract our convictions in core asset classes at any point.

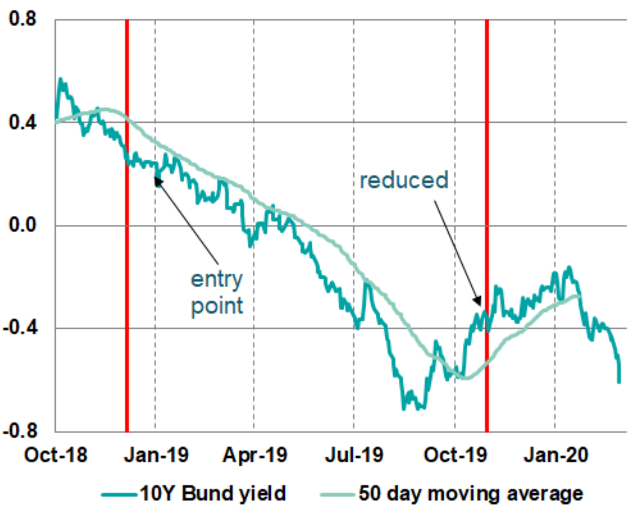
Rates: short core EUR, long US BE inflation, short US treasuries via puts spreads

We see government bond markets as rich across the board. In particular, the risk from a sustained move to reflation remains large. Having seen muted inflation for decades, bond investors generally see the risk of higher inflation as low.

Furthermore, fixed income investors rely on bonds as a buffer against growth slowdown fears. Last month was no exception and we cannot rule out even lower bond yields in the near term.

However, taking a longer-term perspective, the risk/reward for underweights in core government bond markets is attractive to us (Figure 20). As such, we remain underweight core European bonds and for flexible portfolios, have added a put spread structure in US treasuries after these moved to all time yield lows.

Figure 20: Bund yields falling towards the 2019 lows



Source: Bloomberg and BNPP AM, as of 28/02/2020

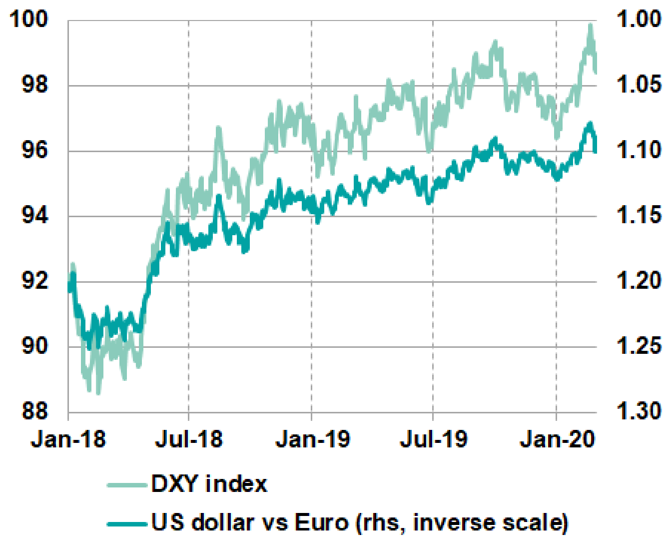
Another way to express our bearish fixed income view is our long US breakeven inflation position. This trade originated from a valuation perspective, but it is also a viable hedge to reflation. In our view, the US inflation expectations should be supported by tight labour markets and by the fact that the Fed has plenty of fuel in the tank.

This trade lost ground with the coronavirus scare in January, but it recently started showing signs of stabilisation.

Currencies: from long to neutral USD

In December, we went long the USD versus a basket of 50% EUR and 50% GBP. This reflected a strong signal from our dynamic technical analysis and our fundamental view that reflation would support the US economic cycle and the USD. A long USD position could also defend portfolios in the case of an extreme risk-off event.

Figure 21: USD has appreciated rapidly against the EUR



Source: Bloomberg and BNPP AM, as of 28/02/2020

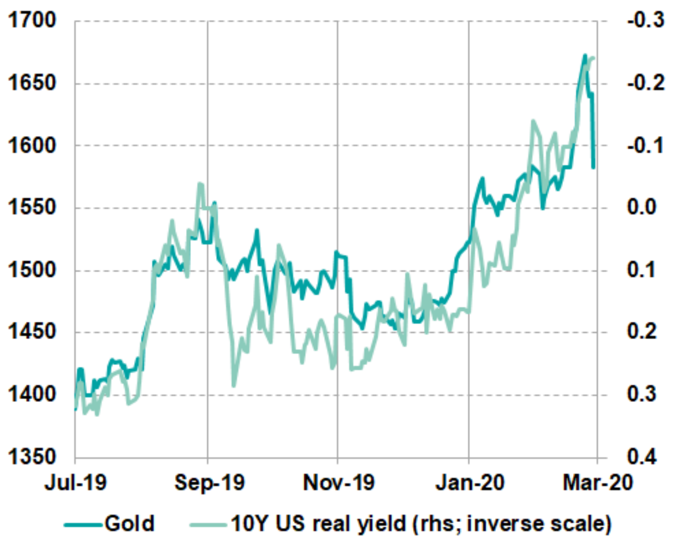
Our long USD position has had a good run this year, notably versus the EUR (Figure 21). More recently, our technical indicators have flagged that the risks are more balanced, so we decided to take profits on the trade.

Commodities: long gold

We are long gold and the yellow metal did well in recent weeks. The main rationale is:

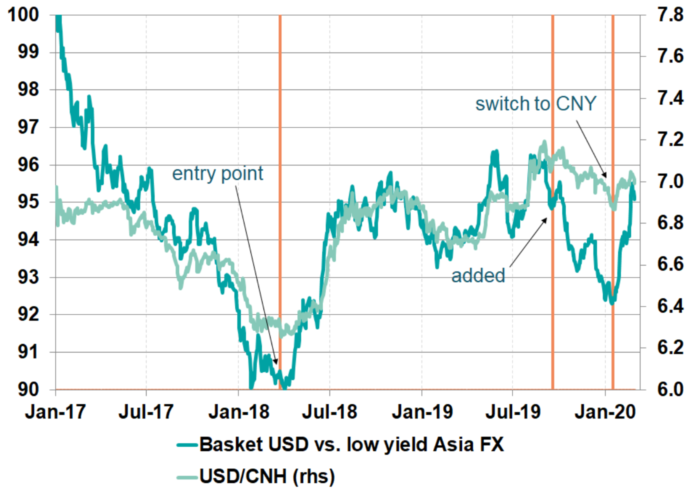
- Gold is likely to be supported when central bank policy is loose and debases fiat currencies – indeed, gold continues to rise as real yields fall (Figure 22).
- Central bank support is likely to continue in the event of risk-off or recession scenarios.
- Gold should also do well in inflationary environments. This could be more visible in a global economic recovery or if fiscal policy is used more prominently to support growth.
- Gold is a good diversification trade.

Figure 22: Gold supported by falling US real yields



Source: Bloomberg and BNPP AM, as of 28/02/2020

Figure 23: CNY has weakened against USD since the coronavirus outbreak



Source: Bloomberg and BNPP AM, as of 28/02/2020

De-globalisation trades: long CAC/DAX and USD/CNY

Despite the phase one trade deal, we are strategically bearish on globalisation in the medium to long term. Two of our trades are specifically geared to Sino-US tensions.

First, we are long CAC/short DAX. We see German equities as more sensitive to a manufacturing slowdown and trade wars than French stocks. We expect this trade to perform over the medium term and in particular in bouts of rising geopolitical tensions.

In currency markets, we are long USD/CNY. This reflects our views on de-globalisation/trade tensions and China's structural slowdown as it transitions to a domestic demand driven economy. This shift should weigh on the current account and the CNY.

In January after a significant CNY rally, we switched from being long USD versus a basket of Asian currencies to being long USD versus CNY. We see this as a cleaner expression of China's external challenges. We note that USD/CNY has been more volatile than our Asian basket over the last year or so.

Finally, the coronavirus scare put pressure on Chinese assets including the currency. This has helped the trade as CNY fell by about 2% against the USD since mid-January (Figure 23).

ASSET ALLOCATION: PORTFOLIO CORNER

Risk utilisation

Our risk utilisation rose after we added to our equity overweights earlier this month, but in recent days, it fell again slightly as we took profits on our USD longs. The active risk in our portfolios is currently moderate, at just above 50% of our target (Figure 24). The main contributors to our current level of risk utilisation are the equity longs discussed above.

Figure 24: Current level of active risk*: moderate

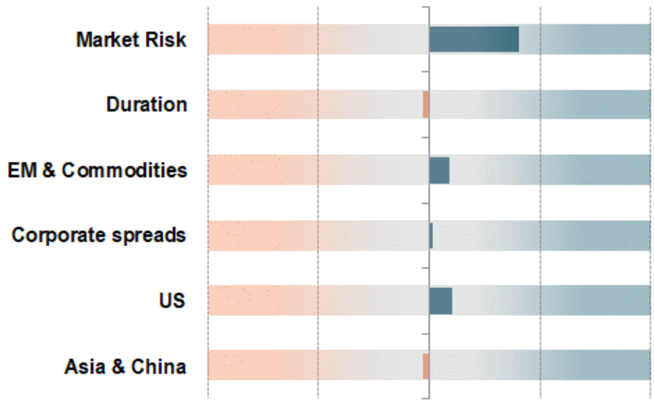
* Risk utilisation/active risk is a measure of the tracking error (as a percentage of maximum tracking error) of an unconstrained theoretical portfolio, derived from core asset class views and from additional specific/tactical trades.
Source: BNPP AM, as of 28/02/2020

Core views and resulting factor exposures in MFA

We have introduced our new asset allocation portfolio optimiser – 'MFA' – which uses factor analysis to map core asset views to factor exposures across all our Multi-Asset portfolios, from the flexible to the very constrained. Please see a white paper here for details. From now, we will also communicate views from a 'factor viewpoint'.

The main factor exposures of our core views is clearly tilted towards ***Market Risk***, and driven by our equity overweights (Figure 25). Market risk rose after we took profits on our USD and JPY longs. Other factors are more muted, given the offsetting factor profiles of some trades.

Figure 25: Current factor exposures* from core asset views



* The factor exposure shown is for an unconstrained theoretical portfolio and derived from core asset class views. These factors will be projected onto individual portfolios considering constraints. Additional specific/tactical trades may be implemented and these will not be visible in the factor profile. They are listed at the end of this publication.
Source: BNPP AM, as of 28/02/2020

Our ***Market Risk*** exposure is the current factor standout, given the new longs in equities and due to the positive *Market Risk* stemming from our long in emerging market hard currency debt. The negative *Market Risk* exposure of our previous long USD and long JPY trades has gone.

Duration is roughly neutral as our long in EM external debt is offset by our duration underweight via core EMU bonds.

The other factor exposures are marginal because some trades cancel each other out. For example, the long CAC/short DAX in equities has no dominant factor exposures as the factor loadings on the French CAC and German DAX indices are nearly identical. Equally, we implemented our long in EMU REITs relative to equities and bonds, specifically with the aim of neutralising factor exposures.

Specific/tactical views implemented outside of MFA

We implement some trades outside of our MFA portfolio optimiser. Such trades are either tactical or specific (i.e. we do not want a trade to be factorised across the book of business) or the asset in question is out of the scope of our optimiser.

From the views discussed above, the following are non-MFA trades:

- Long USD/CNY – specific trade
- Long US breakeven inflation – tactical and specific trade
- Long gold – specific trade
- Long put spreads on US treasuries – specific trade

Note that these trades thus do not contribute to the above factor analysis and are not factorised to the broad book of business.

OVERVIEW OF KEY VIEW CHANGES SINCE LAST PUBLICATION

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

FEBRUARY:

CORE ASSET CLASS VIEWS:

LONG US EQUITY OPENED 03/02/2020

- After the equity correction in late January, fundamentals remained supportive of US equities. For this reason, we went long US equities in line with our goldilocks base case.

LONG EM EQUITY OPENED 03/02/2020

- We believe that the correction in EM equities is mainly driven by temporary concerns over the coronavirus outbreak. Sticking to our buy-the-dip approach, we bought EM equities.

SHORT EUR/JPY CLOSED 03/02/2020

- We opened this position to hedge our exposures in the case of a risk-off market shock. As we are confident that equities will rebound after the recent correction, we closed the position.

LONG USD VS EUR/GBP CLOSED 17/02/2020

- After the sharp rebound of the US dollar, we took profits since the risks are now more balanced.

SPECIFIC/TACTICAL VIEWS:

LONG NASDAQ PUT SPREADS EXPIRED 21/02/2020

- Our Nasdaq put spreads expired OTM.

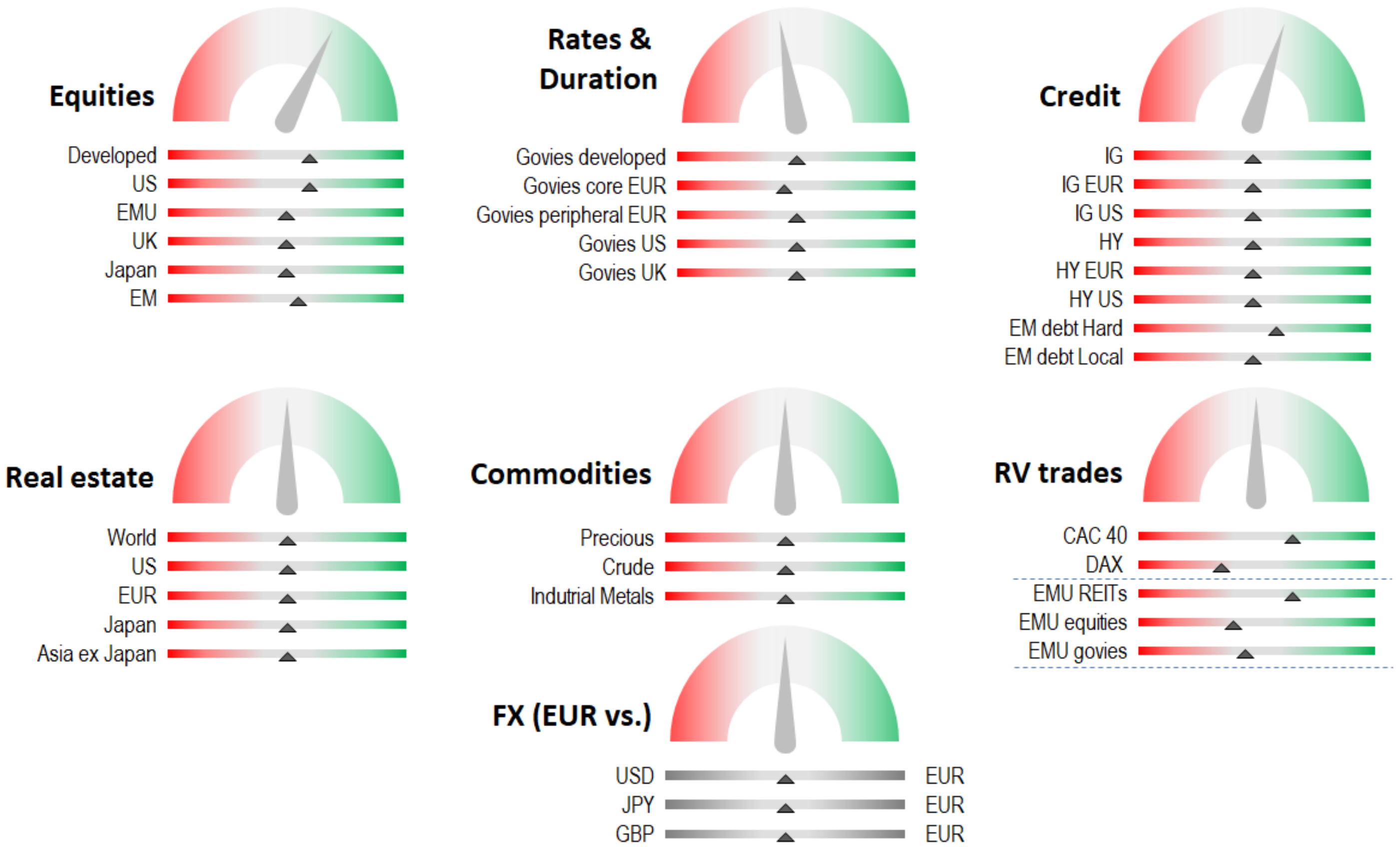
LONG US TREASURIES PUT SPREADS OPENED 26/02/2020

- After US yields approached their historic lows last seen in 2012 and 2016, we see the asset class as having priced in much of the bad news related to the coronavirus and as such there is an asymmetry to the yield upside in our view. Flexible portfolios entered into put spread structures as a result.

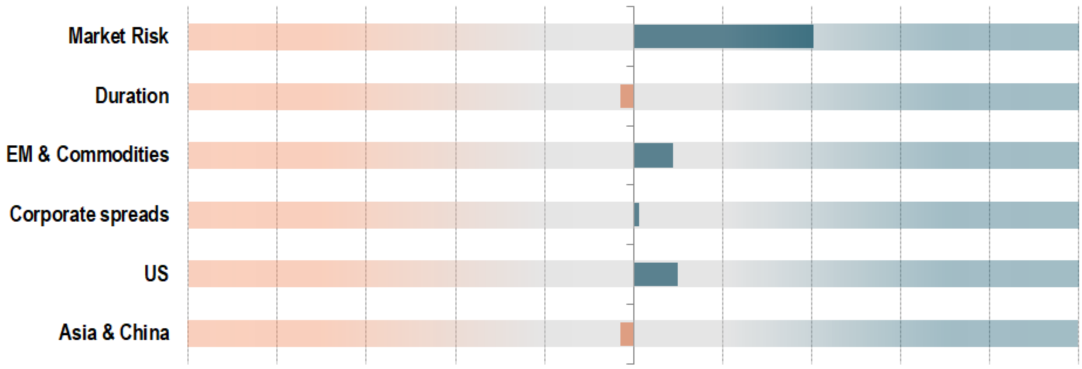
RISK UTILISATION[1]

CORE ASSET CLASS VIEWS & FACTOR EXPOSURE

Core asset class views[2]



Factor exposure[3]



[1] Risk utilisation/ active risk is a measure of the tracking error (as a % of maximum tracking error) of an unconstrained theoretical portfolio, derived from core asset class views and from additional specific/tactical trades.
[2] The core asset class views dashboard reflects the key views of the Investment Committee of the Multi-Asset team at MAQS.
[3] The factor exposure shown is for an unconstrained theoretical portfolio, derived from core asset class views. These factors will be projected onto individual portfolios considering constraints. Other specific/tactical trades may be implemented in addition and will not be visible in the factor profile

SPECIFIC/TACTICAL TRADES[4]

Trade	Asset class	Specific/Tactical
Long USD vs. CNY	FX	Specific
Long US Breakeven inflation	Rates & duration	Tactical & specific
Long gold	Commodities	Specific
Long put spreads on US treasuries	Rates & duration	Specific

[4] Specific/tactical trades are implemented in addition to the core asset class views and will not be visible in the factor profiles shown elsewhere in the document.

Views expressed are those of the Investment Committee of MAQS, as of February 2020. Individual portfolio management teams outside of MAQS may hold different views and may make different investment decisions for different clients.

DISCLAIMER