2018
INVESTMENT THEMES

BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world

2018:

Solid economic growth, timid inflation, less monetary support and megatrends

“In 2017 the global economy continued to improve. Central bank support became less necessary and financial markets pursued a bullish trend.

In the year ahead, we expect a sustained economic recovery with rising inflation. Less accommodation from central banks is on the cards while technological progress and emerging trends will continue.

We have selected 10 investment themes; combined with our global strategy, they should be an additional asset in our changing world.”

We present here some attractive solutions for investors seeking to benefit from the improving economic environment to protect against inflation or to capitalise on strong megatrends.

Looking back at 2017 and looking ahead to 2018

2017 was a fruitful year. Improving fundamentals around the world prevailed over geopolitical obstacles. In Europe, buoyant company earnings and better-than-feared election results triggered an economic trend reversal, which bolstered confidence and economic indicators across the board. In the United States, the Trump administration has had many delays delivering on its economic reforms. With the US economy ticking over nicely, the Federal Reserve increased key interest rates, which barely caused a stir in the financial markets. The economy remained robust in Asia.

Equity markets resumed their bullish trend, driven by US and Asian markets. However, yields were strongly influenced by relatively large currency movements. Despite the change in direction of interest rates, bonds continued to generate positive returns. In commodities, oil recovered strongly and metal prices put in a good performance due to much higher demand, benefiting from a broad economic recovery.

Global economic growth will continue in 2018. This should ensure that equity markets (in particular cyclical sectors) remain driven by sound company results and a gradual normalisation of monetary policy. Although share prices have risen a lot already, valuations are not excessive. We are neutral in the short term due to overbought conditions but remain positive in the medium term assuming that earnings will grow at high single digits in 2018.

The US economy is holding up

Even without the positive influence of President Trump's policies, the US economy remained resilient in 2017.

The ambitious reflation trade—including tax cuts and greater public spending on infrastructure—did not materialise in 2017. As we went to press, tax cuts were going through Congress. Still, the US economy was able to stand on its own two feet. The labour market continued to pick up, consumer confidence and spending peaked and companies delivered decent financial results.

As expected, the US central bank raised official interest rates several times in 2017 to keep pace with the positive economic momentum.

Despite relatively expensive valuations, US stock markets continued to deliver fine returns in 2017, reaching new record highs several times thanks to a weaker dollar. However, there were notable disparities across sectors. Technology was by far the best performer, while telecom companies were the hardest hit. For the first time in years, the dollar lost ground against a basket of international currencies.

In 2018, we expect the US economy to continue on the same path, potentially helped by the implementation of President Trump's tax plan. Jerome Powell, the new Fed chairman, will pursue a similar policy to that of his predecessor, Janet Yellen. With the prospect of three interest rate increases in 2018, investing in bonds will remain a challenge. We are neutral on US equities.

The eurozone in recovery mode

From an economic point of view, 2017 was a pleasant surprise for Europe compared with previous years. Several economic indicators reached their highest levels in years, including consumer spending which recovered nicely. Despite numerous differences between European Union Member states, the revival was widespread.

Favourable election results in the Netherlands and France boosted business and consumer confidence, creating a new impetus within the Union. Furthermore, President of the European Central Bank (ECB), Mario Draghi's pursuit of a flexible monetary policy also underpinned the economy.

European companies published pretty good earnings results. Both sales and profit figures exceeded expectations. This buoyant trend should last in 2018, although the appreciating euro will make things slightly more challenging. We maintain a preference for European equities, for their attractive dividends and fair valuations. The cyclical nature of European companies focusing on exports and share buybacks is offering investors additional incentives, and in turn, generating higher returns. The ECB's flexible monetary policy will lend extra support. Although interest rates in Europe are rising gently, it will still take until 2019 for the ECB to gear up to an interest rate increase.

Japan: Abenomics 2.0

With the re-election of Prime Minister Abe, the economic plan dubbed “Abenomics” that has been running for years, appears to be here to stay. Even though Japan’s economy is looking up, confidence indicators are soaring and deflationary fears have disappeared, any additional help from the authorities would be welcome, particularly in the context of low inflationary expectations. At any rate, the business sector is moving in the right direction with much-needed corporate reforms.

Japanese shares registered strong results in 2017, which cannot be said for the previous year. We expect solid returns in 2018, partly due to sharp profit increases.

In the land of the rising sun, companies are stepping up efforts to satisfy shareholders by distributing higher dividends and/or buying back shares. Japanese equities are still attractively valued compared with other equity markets. This may increase the appetite of foreign investors.

Emerging markets have many strengths

The economic momentum in emerging markets remained strong in 2017, having a positive impact on commodities. The young population is joining the middle classes *en masse*, which is boosting demand for services and consumer goods, especially technology. Emerging markets are becoming more prominent on the international stage.

By following flexible policies, the Chinese government was successful in maintaining a balance between encouraging growth on the one hand and controlling the real estate market and curbing debt on the other. Doubts abound as to whether China can sustain economic growth and if and when the debt bubble will burst. Emerging market equities had a very good year with a magnificent performance from the technology sector. Local currency bonds also put in an impressive performance. The risk of protectionist measures by the Trump administration did not materialise.

We remain confident in equities from emerging markets, with a preference for Asia ex-Japan, in particular China and India, which are expected to sustain their economic expansion. Companies should be able to keep profit levels on track. However, this will be reliant on the stability of China’s economic growth. The direction of interest rates and the value of the greenback are also key.

2018
INVESTMENT THEMES

Emerging markets are striving for technological developments and innovation, thus providing attractive investment opportunities to which we align our new investment themes. However, it pays to be selective. In other words, choosing tomorrow's winners and avoiding overvalued securities is crucial.

Our Investment Themes consist of two sub-themes.

LATE-CYCLE THEMES

The recovery of the global economy continues and is gradually entering a late cycle environment. Investment opportunities differ from those in the cycle's early phases.

MEGATRENDS

Investors are well advised to keep an eye on mega trends that are taking centre stage, because they offer long-term growth opportunities for new players and companies that can reinvent themselves.

LATE-CYCLE THEMES:

1/ Seeking alternatives to traditional fixed income strategies

2/ The time is ripe for an acceleration in external growth (M&A and special situations)

3/ The importance of finding flexible solutions

4/ Value Investing Should Finally Have Its Day In The Sun

5/ Protecting against inflation risk via tangible assets

MEGATRENDS THEMES:

6/ Millennials: adapting to the largest generation so far

7/ (R)evolution in mobility: the impact of electricity

8/ Infrastructure and urbanisation, a global trend

9/ Sustainable production methods and healthy consumption habits increase their appeal

10/ Business investment on the rise: cyclical and secular drivers

CALDER
CRUZVILLEGAS

Seeking alternatives to traditional fixed income strategies

Opportunities in the bond universe are increasingly rare. Risk premiums, already weak in 2016 and 2017, are shrinking further due to cash injected by central banks. Investors have been forced to take on more risk to obtain decent yields. We explore here several ways of finding value in the bond universe and alternative funds with similar volatility levels.

RISK / HORIZON	LOW	AVERAGE	HIGH
< 1 YEAR			
1 YEAR	X		X
> 1 YEAR			

Variable-rate bonds in the US

The US economy continues to grow at a moderate pace and the labour market is increasingly tight. The US is nearing the end of the economic cycle. President Trump's strategy is to extend the cycle with a fiscal stimulus programme. This will have the effect of increasing debt and accelerating inflation. The Federal Reserve, which will try not to fall behind the curve, has already started to tighten credit conditions, something which is set to continue gradually. We forecast three rate hikes of 25bps each in 2018 in addition to the increase in December 2017. The rate at the end of the cycle may increase to 2.25%. Indeed, 2-year rates should continue to rise. **In this context, we favour variable-rate bonds, synthetic bonds indexed to short rates (credit-linked notes or CLN).** However, we do not include any inflation-linked bonds because they usually have longer-dated maturities and a greater sensitivity to real rates. Credit-linked notes have a higher risk-return profile and are only suited to investors with an appropriate risk tolerance.

OUR RECOMMENDATIONS

For defensive investors, variable-rate bonds, unconstrained bond funds and certain alternative funds are helping them to benefit from the expected rise in US short rates.

For more dynamic investors who accept volatility, synthetic bonds indexed to short rates (credit-linked notes or CLN). Emerging Market debt in local currency is offering attractive yields.

In any case, the recommended investment horizon is 12 months.

Seeking alternatives to traditional fixed income strategies

Unconstrained bond funds

We expect yields to rise gradually, both in the US and the eurozone, particularly due to the gradual normalisation of monetary policy in the world's major economies (except Japan). This rise should make existing bonds less attractive. An active management of interest rate risk is thus crucial, above all in the fixed income universe where yields to maturity (YTM) are extremely low. Therefore, so-called **"unconstrained" funds**, which have no benchmark constraints and can be invested in all sub-asset classes, **should generate higher returns than traditional funds.**

Emerging Market bonds in local currency

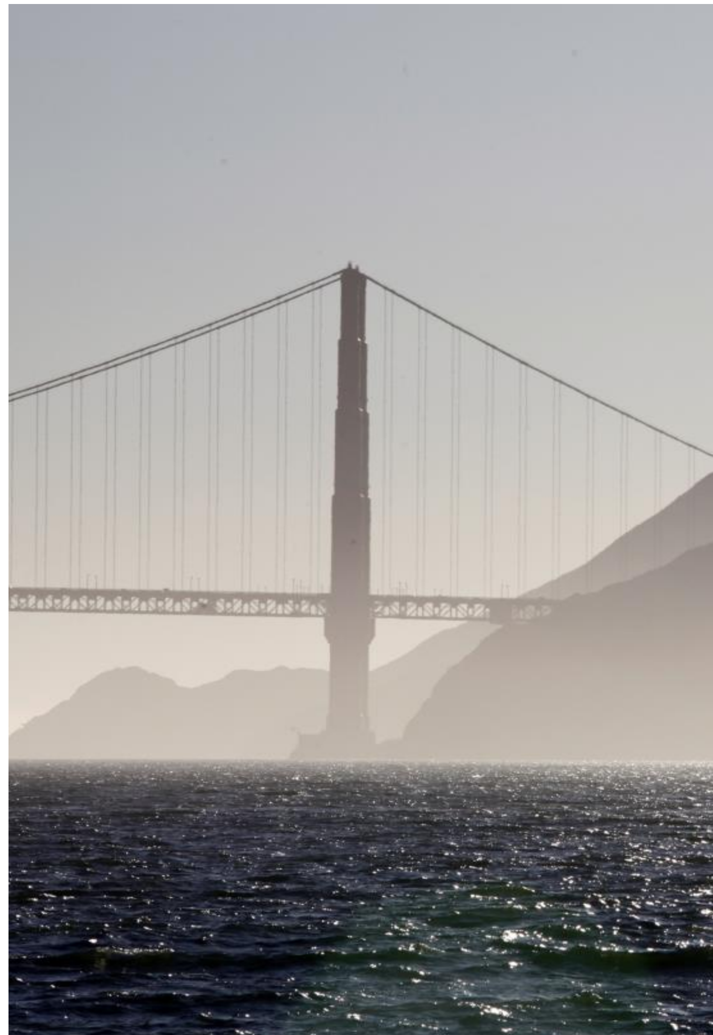
Emerging Markets continue to benefit from world economic growth. Inflation has fallen in a large number of these countries, leading central banks to lower key rates. Several central banks (in Brazil, Mexico, South Africa and Colombia) should continue to relax monetary policy in 2018. Logically this will favour the attraction of existing bonds. **Yields to maturity are attractive (around 6.3%), offering a buffer in the event of a variation in risk premiums and currencies.** We forecast the euro to strengthen somewhat against the basket of Emerging Market currencies over the coming year, which will have a partial impact on expected returns. On the other hand, we think that the dollar should depreciate slightly versus Emerging Market currencies, generating additional returns for USD investors. Emerging Market bonds in local currency have a higher risk-return profile and are only suited to investors with an appropriate risk tolerance.

Alternative funds (alternative UCITS)

Interest rates and government bond yields remain very low, a trend set to continue especially in the eurozone.

It is trying times for bond investors because government bond yields and Investment Grade corporate bonds are likely to be very low.

Consequently, we have studied several potential sources of performance in this asset class while seeking a similar level of risk (volatility or price fluctuations). Alternative funds, **particularly "Long/Short Equity" strategies** (benefiting from price anomalies between shares) and **Macro strategies** (benefiting from market trends such as interest rates, commodities and currencies) **are likely to offer attractive returns while limiting the portfolio's sensitivity to rising interest rates.**



Seeking alternatives to traditional fixed income strategies

Conclusion

Opportunities in the bond universe are increasingly rare. We have explored several ways of finding value in bonds and alternative funds with similar volatility. In the US fixed income market, we favour variable-rate bonds and synthetic bonds indexed to short rates (credit-linked notes or CLN). We also like Emerging Market local currency bonds and unconstrained funds. Alternative funds also offer opportunities and we have a preference for "Long/Short Equity" and "Macro" strategies.

Yield on 10-Year Government Bonds

Source: Thomson Reuters Datastream, 28/11/2017

MAIN RISKS

This strategy is based on the scenario of an improvement in world economic growth and a rise in short-term rates in the US. Failing this, investors in floating rate notes are exposed to a shortfall compared with fixed rates. Investors in Emerging Market bonds in local currency may suffer losses given that the currency risk could be high. A rise in interest rates and risk premiums in Emerging Markets would also be disastrous.

The time is ripe for an acceleration in external growth (M&A and special situations)

External growth operations tend to multiply in the late stages of an economic cycle, replacing organic growth strategies with those that boost competitiveness. In the US, the implementation of new tax measures (tax cuts and tax breaks for repatriating overseas earnings) should bolster M&A activity and share buybacks. As Europe is lagging in the cycle, its potential for external growth and share buybacks is at least as good as in the US.

RISK / HORIZON	LOW	AVERAGE	HIGH
< 1 YEAR			
1 YEAR		X	
> 1 YEAR			

A favourable context for M&A and share buybacks

As the economic cycle advances, companies are finding it increasingly challenging to find internal ways of trimming costs and improving profit margins or return on equity. This is especially true of the current growth cycle, which is one of the longest on record, having begun in March 2009. Economic growth is well on track, business leaders' confidence is high, and the economy is showing all the signs of improving in the short term. Against this backdrop, M&A activity is ramping up, and healthy balance sheets usually spur such momentum.

Mergers and acquisitions help to pursue cost and revenue synergies. This is very relevant in the present context of moderate growth in end demand, which is hampered by ageing populations and different needs of Millennials. Market share gains usually increase companies' negotiating power when it comes to fixing prices. Another factor that facilitates M&A activity is cheap credit.

OUR RECOMMENDATIONS

This theme is characteristic of the late stages of bullish market cycles. For this reason, it has a short horizon. We think it is attractive in 2018 but may no longer be in 2019.

In equity markets, we favour no region in particular, even though the eurozone has the highest potential.

With regards to "Event-Driven" alternative UCITS funds, these strategies aim to create value by capitalising on special situations within a company, principally mergers and acquisitions, share buybacks, break-ups, etc.

The time is ripe for an acceleration in external growth (M&A and special situations)

The US is well advanced in the economic cycle, and in M&A activity too. Nevertheless, there is attractive potential thanks to tax cuts on the cards in 2018 and tax incentives for repatriating foreign earnings. In turn, these tax measures should encourage further share buybacks.

Because Europe is lagging the economic cycle, it has greater potential for external growth. The same applies to share buybacks.

At the global level, mergers and acquisitions (in both volume and value terms) are still below the peaks of 2000 and 2007 (see chart). Hence, there are many regions in which investors can participate in this theme.

"Event-Driven" alternative funds

These strategies aim to create value by capitalising on the special situations of a company, principally mergers and acquisitions, share buybacks and break-ups. Other strategies (e.g. distressed debt) are long-term opportunities but they are not directly covered by this theme.

M&A strategies: above all, fund managers seek to benefit from the spread between the market price at time t and the price offered by the buyer. Like most alternative fund managers, they can simultaneously benefit from rising and falling prices. Indeed, we often see the share price of the acquiring company fall initially, whereas the opposite is true for the target (acquired) company.

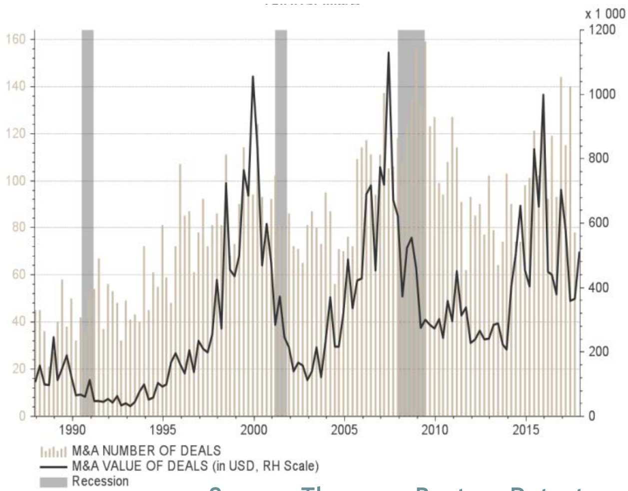
Special situation strategies: there are several types of "special situations" (known as catalysts) which may have an impact on a company's long-term valuation. This may be an arbitrage strategy between two companies, one of which might announce a restructuring, a privatisation of a public company, a spin-off from a large group or a share buyback programme. The latter event has a particularly high potential given the likely announcement of tax incentives for repatriating cash to the US.

Conclusions

We believe that we are entering a late stage of the economic cycle during which companies should favour external growth, particularly via mergers and acquisitions. In the US, the adoption of new tax measures should support share buybacks. The strategy of picking stocks of companies which are particularly subject to these developments is offering enticing opportunities. Event-Driven alternative funds offer another way of riding these trends.

The time is ripe for an acceleration in external growth (M&A and special situations)

Global M&A



Source: Thomson Reuters Datastream

MAIN RISKS

If the world economy slows down earlier than expected, and abruptly, this would rapidly dampen the appetite for M&A. The same scenario would arise if deflationary fears resurface.

Moreover, a rapid rise in bond yields would also be bad news.

Alternative strategies, such as "Event-Driven", are sensitive to risk aversion and confidence among investors as well as liquidity in the financial markets. There is a positive correlation with equity markets. Changes in legislation are also a risk to this theme.

The importance of finding flexible solutions

The bond universe offers very few opportunities. Indeed, interest rates and bond yields are set to rise moderately in 2018. This suggests that returns on traditional bonds will be very low. Moreover, some equity markets are already fairly dear and some investors do not tolerate the level of underlying risk on these markets. Alternative strategies, unconstrained funds and certain structured products offer attractive solutions.

RISK / HORIZON	LOW	AVERAGE	HIGH
< 1 YEAR			
1 YEAR			
> 1 YEAR	X		

Alternative UCITS – "Long/Short Equity" and "Macro" strategies

"Long/Short Equity" strategies take advantage of price anomalies on equity markets. Portfolio managers may take long and short positions at the same time (a strategy consisting of simultaneously betting on the rise of one share and the fall of another share or a group of shares). This helps to limit the portfolio's sensitivity to a general decline in the equity markets or to a rise in interest rates for example. We have selected several funds, according to their risk and their exposure to equity markets. "Macro" portfolio managers should benefit from a better visibility on central bank interventions in terms of monetary policy, as well as the resulting disparities through commodity price variations for example. "Macro" strategies mainly aim to benefit from the evolution of stock market indices, interest rate movements and fluctuations in commodity prices or currencies. Positive or negative trends may occur but these strategies require a certain stability in the trend for portfolio managers to outperform.

OUR RECOMMENDATIONS

We see abundant opportunities with alternative UCITS strategies. "Long/Short Equity" portfolio managers bet on share price anomalies. We also like "Macro" strategies because they usually benefit from a better visibility on central bank interventions in terms of monetary policy, as well as disparities linked to commodity price fluctuations. "Unconstrained" funds, which have no benchmark constraints and may be invested in any sub-asset class, also provide opportunities. Structured products are also attractive because they can make use of complex instruments to optimise returns, without increasing the sensitivity to a rise in interest rates.

The investment horizon is between 1 and 3 years.

The importance of finding flexible solutions

Unconstrained bond funds

We think that bond yields will increase gradually, both in the US and in the eurozone, particularly due to the gradual normalisation of monetary policy in the world's major economies (except Japan). Traditional bonds risk seeing price corrections. Active management of this interest rate risk is essential. So "unconstrained" funds, which have no benchmark constraints and may be invested in any sub-asset class, should outperform traditional funds.

Structured products

Structured products usually make use of more complex instruments (futures contracts, options or credit default swaps) to which individual investors generally have limited access. Such instruments may be used to optimise the overall return or hedge against losses while limiting the sensitivity to a rise in interest rates. We recommend short-dated defensive products (usually 1-3 years). In other words, investors should favour solutions offering a total or partial protection of the invested capital. Underlying assets may vary in nature (e.g. oil, gold, equity indices, interest rates).

Evolution of Interest Rates - Germany

Source: Thomson Reuters Datastream, 26/10/2017

MAIN RISKS

The liquidity of alternative funds may vary from one fund to the next. It is important to keep into perspective the size of the fund compared with that of the underlying market, while taking into account the daily or weekly liquidity for UCITS funds. Given that these funds may have a flexible management with no benchmark constraints, it is important to monitor that the fund manager respects his/her intended investment and volatility strategy. The same applies to "unconstrained" funds.

Conclusion

The bond universe remains difficult. Besides, certain equity markets are already fairly dear and some investors do not tolerate the level of underlying risk on these markets. We have presented several alternative fund strategies ("Long/Short Equity" and "Macro") which help to create value while limiting the associated risk. "Unconstrained" funds and structured products may open up opportunities with the same risk/return objectives.

Value investing should finally have its day in the sun

A window of opportunity for outperformance is opening up for value stocks (i.e. undervalued stocks).

Value stocks will capitalise on synchronised global economic growth and mounting inflationary pressure. These pro-cyclical trends will drive up bond yields to which value stocks are positively correlated.

The discount on value stocks should diminish during the first few quarters of 2018.

HORIZON \ RISK	LOW	AVERAGE	HIGH
< 1 YEAR			
1 YEAR		X	X
> 1 YEAR			

A different and diversification approach for equity markets

Investing in equity markets consists in selecting stocks, markets, sectors and styles. Typically, different approaches are combined to build a diversified exposure to shares with an excellent risk-return ratio.

A distinct bull market

Empirical research shows that over the long run, value (i.e. cheap) stocks tend to outperform growth stocks (companies with above-average earnings momentum). This (almost systematically) reflects an overvaluation of earnings potential for growth stocks, and by contrast, an undervaluation of value stocks.

Since the beginning of the bull market (March 2009), value stocks have underperformed growth stocks. The main reason for this is that the global economic recovery has been lacklustre, requiring authorities (particularly monetary) to take emergency measures to sustain it. As a result, bond yields have followed a bearish trend and equity investors have preferred to focus on the visibility on business performance and dividends rather than pro-cyclical positions. In the first few months of 2018, the continued global growth should boost investor confidence in, and appetite for, value stocks. Eventually, these value stocks should outperform growth stocks for several quarters.

OUR RECOMMENDATIONS

This theme is worldwide. It covers all equity markets due to the synchronous nature of global growth.

Moreover, synchronous world growth and mounting inflationary pressure will drive up yields across bond markets. In other words, owing to the strong positive correlation with rising yields, value stocks are expected to outperform across the board.

This theme is adapted to the mid-to-late stages of the economic cycle, hence, it is limited to 2018.

Its level of risk is higher than an investment in an average defensive stock but lower than an average cyclical stock.

Value investing should finally have its day in the sun

In the first few months of 2018, the continued global growth should boost investor confidence in, and appetite for, value stocks. Eventually, these value stocks should outperform growth stocks for several quarters.

A period of outperformance begins

The wide range of positive contributions to growth (consumption, business investment, world trade and fiscal stimulus in certain countries) and synchronised world growth are sustaining companies' earnings momentum. A favourable economic climate, coupled with rising inflationary pressure, will drive up bond yields. Although we expect only a moderate rise, we believe it will be enough to take value stocks into a prime position to outpace growth stocks as investor appetite for cyclical stocks returns.

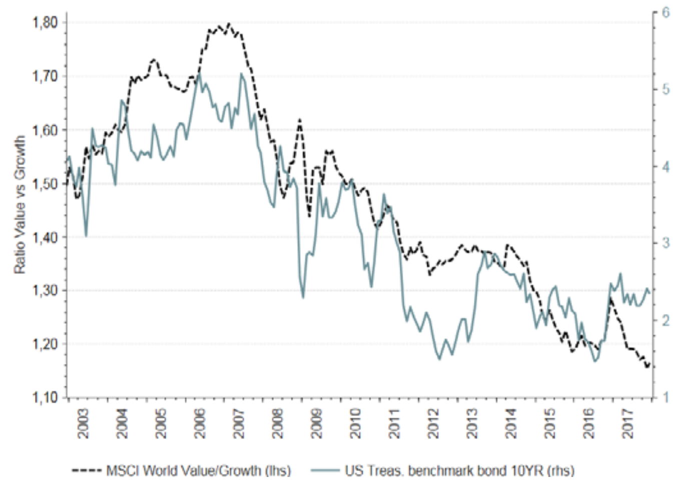
Highly attractive valuations

The price-to-book ratio for value stocks is around its long-term average compared with above average for growth stocks. This means that value stocks are trading at a very attractive discount (nearly 55% versus a long-term average of 47%). This discount should diminish as bond yields rise.

Conclusion

In a context of sustained growth, mounting inflation pressure and rising bond yields, the time is nigh for value stocks to shine again.

MSCI World Value vs. Growth (relative) Performance



Source: Thomson Reuters Datastream, 11/12/2017

MAIN RISKS

Like any investment in shares, the risk of losing the capital invested will increase in the event of a general reversal on the stock markets.

However, the chief risk is linked to the direction of the economy. Assuming a deterioration, investor confidence would probably fade, and consequently, investors would retain their preference for growth stocks.

Consequently, value stocks would continue underperforming growth stocks.

Protecting against inflation risk via tangible assets

Inflation expectations are very low. And yet there is a real risk of surprise to the upside at this stage, especially in the US. A direct exposure to real assets helps to stabilise long-term returns and increase the portfolio's protection against inflation. Real assets include precious metals (e.g. gold), direct real estate, farms, vineyards and forests.

HORIZON \ RISK	LOW	AVERAGE	HIGH
< 1 YEAR			
1 YEAR			
> 1 YEAR		X	

An underestimated inflation risk

Inflation expectations in developed countries are still relative low. This is particularly true in the eurozone. At this stage, wages and prices are barely reacting to improvements in the economy, which is particularly the case in the US where unemployment has fallen to a record level. This phenomenon is observed in Europe too, for example in Germany. After almost 18 months of falling unemployment in the eurozone, unit labour costs have started rising very slightly (1% y/y). What factors explain less correlation between falling unemployment and rising wages? Economists cite three main reasons: globalisation (international competition); the development of e-commerce (price transparency) and the expansion of the service sector in developed countries (less negotiating power for trade unions). Apart from these main factors which are hampering inflation, it is useful to analyse the labour market more generally. It is important to use indicators which take into account the quality of jobs (involuntary part-time jobs, fixed-term contracts) and a measure of unemployment which includes people who are available to work but are not actively seeking, or people who are actively seeking but are temporarily unavailable.

OUR RECOMMENDATIONS

Protecting against inflation via tangible assets:

- Gold: the most traditional way of investing in gold is physical gold, for example gold ingots. A less traditional way is via collective investments, ETFs (Exchange Traded Funds) invested in physical gold.
- Direct real estate
- Rural land
  Farms, vineyards, forests.
  We highly recommend seeking advice from an expert, because prices and quality may vary considerably.

Protecting against inflation risk via tangible assets

We estimate that some of the factors mentioned previously may be temporary and some leading indicators point to an improvement in the labour market, in terms of job quality. It is thus likely that a further fall in the unemployment rate will have a greater impact on wages. Inflation expectations underestimate the risk of an acceleration in price growth and our scenario includes higher figures than the economists' consensus for most countries. It is therefore a good time to consider investment solutions that help to protect against this eventuality. Remember that unanticipated inflation is a major source of loss of purchasing power.

Gold

Gold prices were recently penalised by a renewed appetite for risky assets and by the rise in bond yields. However, we remain positive on gold and keep our forecast range between $1,200 and $1,500. Real interest rates play an important role for gold. Moreover gold might recover in the event of an acceleration in inflation or inflationary expectations, which would keep real interest rates relatively low or negative as is the case in Europe and Japan. For capital preservation, as long as inflation-adjusted bond yields remain low, bonds will not compete with gold which does not generate revenues. Gold is one of the few diversification assets still available in today's extremely correlated world. It should play a safe haven role in the event of heightened geopolitical events or instability in the financial markets.

World gold production dipped in 2017. Due to the lack of investment in recent years, relatively few projects for building or enlarging mines are scheduled to come on stream in the short term.

Central banks in emerging markets (e.g. China and Russia) should continue to amass their gold reserves. Demand for jewellery was disappointing in 2017 but is expected to be relative stable in the coming months. Capital flows in ETFs are the most volatile element of demand. The balance remained clearly positive in 2017, well below 2016 levels. The emergence of ETFs on gold in Asia could provide an additional source of demand.

Protecting against inflation risk via tangible assets

Direct real estate

Direct real estate (commercial and residential) may offer investors a partial protection against a sudden surge in inflation. If nominal interest rates rise because of a projected acceleration in inflation, then real interest rates (adjusted for inflation) will remain more or less stable. If a property owner finances his own "bricks and mortar" at a capped rate before inflation surges, borrowing costs will remain unchanged while rental revenues will increase.

Protection against inflation is undeniably partial for two main reasons: i) there is a time lag between the rise in prices and the rental indexation, often six months or more and ii) the various indices used for rental indexation do not always fully reflect future inflation.

In the event of inflation, growth in rents tends to occur before values go up. Theoretically, property values could be considered as an infinite supply of growing rental cash flows, which is why rents rely on inflation to climb.

Farms, vineyards and forests

Rural real estate offers an attractive alternative to investors wishing to diversify their portfolio. These assets are not correlated to the financial markets and provide (usually indexed) revenues, while offering a long-term capital appreciation. BNP Paribas Wealth Management has a department specialised in rural real estate transactions in France: Agrifrance. It advises clients (on both the buying and selling side), executes and facilitates transactions involving farms, vineyards, forests and country estates. It also assists would-be buyers in the search for real estate management solutions.

Farms: most farmland (74%) on the market is leased; demand is resilient, rental income is between 2% and 4%, land prices have increased by on average 4% over the past ten years and the French market is more attractive than its neighbouring countries.

Vineyards: different investment strategies may be taken in this area. Top-of-the market vineyards and very well-known appellations enjoy strong price increases as well as good prospects for long-term capital appreciations.

However, returns are very moderate. At the low end of the market, vineyards offer reasonable returns (leased vineyards) and moderate potential for capital appreciation, while others offer good potential for long-term capital appreciations.

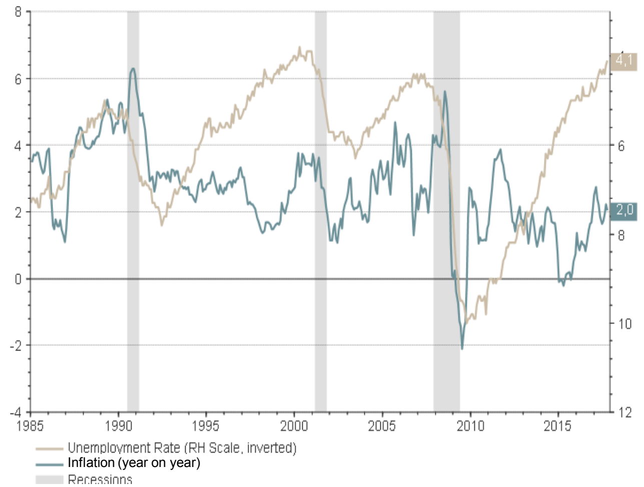
Forests: timber price volatility has no impact on forest prices. Demand exceeds supply and a premium is added according to the size, ease of management, coherence and proximity to a major town or city.

Protecting against inflation risk via tangible assets

Conclusion

Despite the recent fall in inflation rates, inflationary expectations remain relatively low for developed countries for three main reasons: globalisation (international competition), the development of the digital economy and e-commerce (price transparency) and the expansion of the service sector in developed economies (less negotiating power of trade unions). We estimate today that certain factors mentioned above may be temporary. And yet there is a real risk of surprise to the upside at this stage, above all in the US. A direct exposure to real assets helps to stabilise long-term returns and increase the protection of a holding against the loss of purchasing power. Such assets include precious metals (gold), direct real estate, farms, vineyards and forests.

US Inflation versus Unemployment



Source: Thomson Reuters Datastream, 10/2017

MAIN RISKS

Gold and direct real estate: Interest rates and bond yields could exceed the forecasts in our base scenario. This might lead to higher real interest rates which could have a negative effect on gold and real estate.

Rural land: Investments in farms, vineyards and forests are, by nature, long-term investments which may be considered as illiquid. Prices and quality vary considerably due to various factors (degree of renown, location, topography, road/rail/air connections, technical and financial returns). Climatic conditions and plant diseases may also have an impact on valuations.

Millennials: adapting to the largest generation so far

"Millennials" or "Generation Y" are the cohort of people born between 1980 and 2000, who are constantly connected via all kinds of numerous and varied devices. These young consumers, with new habits and needs, are revolutionising the way goods and services are consumed. They are forcing companies to innovate and are thus creating winners and losers in various sectors. We see opportunities in sectors such as Virtual Reality (VR) and Augmented Reality (AR) Database Management, including Cloud Computing, Big Data, and industries linked to new modes of consumption.

HORIZON \ RISK	LOW	AVERAGE	HIGH
< 1 YEAR			
1 YEAR			
> 1 YEAR			X

Virtual Reality & Augmented Reality

A "quiet revolution" has been taking place over the last few years in the video games sector, which has seen the business model shift away from selling software packages towards an approach based on monetising consumer engagement through micro-transactions. Now the appearance of Virtual Reality and Augmented Reality techniques, originally created for video games, is also expected to lead to the development of a wide range of new habits and applications in many sectors. We also note the rise in popularity of both digital sport and video-on-demand platforms, which are a growing attraction and constitute a new channel for communication and advertising. Last but not least, the VR/AR sector appears to show low price sensitivity, as the services on offer meet a growing demand.

On a wider perspective, we observe that a number of traditional sectors are now bringing new technology-based updates to their products, for instance connected TV sets and remote-control systems for all household appliances including heating, lighting, etc., which are all part of a new drive towards the "Internet of Things".

OUR RECOMMENDATIONS

The main emphasis is on three sub-themes: Virtual Reality & Augmented Reality; Database Analytics (including Cloud Computing); and new modes of consumption. Investment opportunities in these fields are mainly based on equities and equity funds.

This investment theme is part of a long-term (more than one year) trend.

Millennials: adapting to the largest generation so far

We believe that the semi-conductor industry—which is essential for integrating new technologies into our everyday lives—and the software development business, with innovations such as facial recognition, Big Data analytics, etc., will continue to be the main engine driving industries over the next few years.

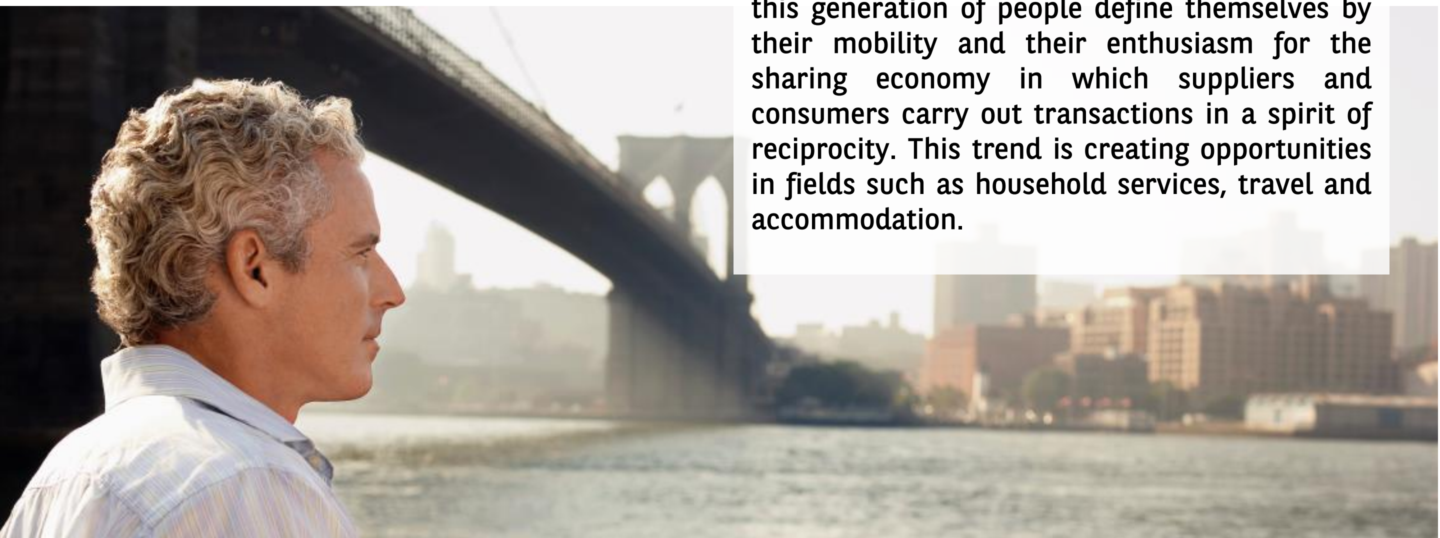
Database Management and Data Analytics (Cloud Computing)

As companies undergo a digital transformation, they tend to collect more and more data in order to gain a better understanding of customer/user needs and so offer them a better customer/user experience. Managing all these data requires special knowhow and new firms have been arriving on the scene to provide such skills to this nascent market. We see two main areas for investment. Firstly, companies need the means to gather this vital information; this may be achieved through the major online content providers. Secondly, analysing and exploiting these huge databases looks set to become a major business need over the next few years. Companies specialising in IT advisory and managers of large database systems are likely to see a growing demand for their services.

A generation with a different approach to consumption

"Millennials", otherwise known as "Generation Y", (people born between 1980 and 2000) are constantly connected via all kinds of increasing numerous and varied devices. More and more, these young consumers expect to obtain delivery of a growing number of products and services, based on a wide choice, at unbeatable prices and in the shortest possible time. So companies must now adapt to these needs. We therefore see opportunities for investors in the logistics (warehousing, delivery, etc.) and e-commerce sectors, as well as in a number of cutting-edge technologies designed to transport products from factory to customer.

Meanwhile, it is not only the method of consumption that is changing, but also the very nature of consumption. Millennials are avid for information and training to help them update their knowledge regularly. In order to meet this growing demand, more and more companies are working with innovative digital platforms to create new education systems in a wide range of fields. Such platforms are highly popular with people who do not have access to traditional training methods for reasons of time, cost or convenience. Last but not least, this generation of people define themselves by their mobility and their enthusiasm for the sharing economy in which suppliers and consumers carry out transactions in a spirit of reciprocity. This trend is creating opportunities in fields such as household services, travel and accommodation.

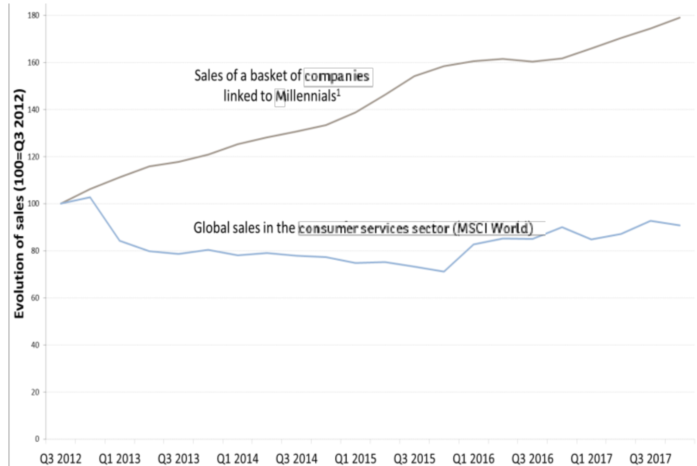


Millennials: adapting to the largest generation so far

Conclusion

Millennials have a different approach to consumption, which will in the next few years enable the development of new markets. Companies will be forced to innovate and only the best performers will be able to profit from this trend. We have set out a number of specific investment themes in this general field that are likely to enable long-term value creation, namely: Virtual Reality & Augmented Reality; Database Analytics (including Cloud Computing); and the new modes of consumption.

Strong growth of sales linked to Millennials



(1) 12-month trailing sales.

Source: Thomson Reuters Datastream, 4Q17

MAIN RISKS

This investment theme is geared to generational trends and is long term in nature. Prices may undergo stronger-than-average corrections, given that a large proportion of securities covered by this theme are companies with already high valuations (as measured, for example, by the price-to-earnings ratio). Moreover, these businesses rely (to a large extent) on technological advances, which may either radically boost company profits, or conversely, jeopardise a company's performance if those innovations are being introduced by competitors, which may in turn lead to a serious drop in stock-market value. It is therefore very important to monitor investments in these companies on a regular basis.

(R)evolution in mobility: the impact of electricity

In a bid to curb global warming, fight pollution and solve transport problems in congested cities, political authorities in the West and in China are taking measures which will accelerate the growth of electric vehicles (EVs).

This (r)evolution is opening up opportunities at every level of the value chain: materials (metals, chemical products used in batteries), electricity producers, EV makers, and carpooling services, etc.

RISK / HORIZON	LOW	AVERAGE	HIGH
< 1 YEAR			
1 YEAR			
> 1 YEAR			X

Growing transport woes (particularly in cities) call for a rethink of mobility. In the context of reducing greenhouse gas emissions, fighting pollution (micro particles), compounded with the growing difficulty of travelling to, from and around cities, political authorities and economic players are forced to invent new ways of getting around. Thanks to technological advance, electricity offers new opportunities in this area.

Changes in consumer behaviour...

The automobile industry is undergoing a massive transformation, and in the coming decades it will see an acceleration in electric vehicles. Demands for a cleaner ecological environment in many countries coupled with the recent scandals in the industry will explode the number of cars made with a (part) electric engine. Although electric vehicles still have a small market share (less than 5%), an increasing number of users are planning to go electric when they purchase their next vehicle. The penetration of vehicles could exceed 11% of the world market in 2025 and 26% in 2030 (source: Exane, December 2016). In this context, electric cars are becoming a huge issue for automakers, particularly with the rising number of newcomers gradually emerging on this segment.

OUR RECOMMENDATIONS

Geographical region: this is a worldwide theme. All regions (emerging markets, developed countries) are concerned by mobility issues.

Asset class: this theme is played on the equity markets via funds and individual stocks. Numerous sectors of the economy participate in this theme: materials, industrials, technology and consumption.

Risk profile: investing in sectors linked to electricity requires constant vigilance and an acceptance of higher-than-average risk. This theme carries a high risk.

Investment horizon: long term.

(R)evolution in mobility: the impact of electricity

Even though the electrification of vehicles has its disadvantages (problem of autonomy and higher costs, albeit on a sliding scale thanks to innovation), it now meets the specific needs of consumers' mobility (e.g. short journeys across the city). Other means of transportation (electric bikes, other individual means of transport) are also riding the wave of this sales momentum thanks to electrification (although it may seem anecdotal, the use of hover-boards and scooters is very much on the rise!). These new means of transport are meeting consumers' needs to get around beyond car travel.

... but also in collective initiatives.

Better mobility is part of the "smart cities" concept which consists of investing in quality urban services. The effects of overpopulation in cities are fairly powerful, as economic players (companies and consumers alike) find an interest in concentrating in the same region. However, built-up cities bring inconveniences. Sprawling towns and congested city centres make getting around a real problem. To meet this challenge, large metropolis and governments are investing in cleaner and less noisy public transport (tramways, tube trains, high-speed trains). With or without support from public authorities, companies in the private sector are innovating too with new transport solutions (self-service electric cars, scooters, bikes and car sharing services, etc.).

How to invest in mobility electrification

We recommend playing the mobility theme via individual stocks and investments funds. Indeed electrification covers a host of different business activities, **so we recommend investment solutions along the whole value chain.** Numerous players are involved in mobility electrification (see graph).

At the beginning of the value chain, massive demand for high-performance batteries will lead to a large surge in demand for lithium, graphite, nickel and cobalt. Moreover, as cobalt has become very dear and stock levels face political risks, battery manufacturers are turning to solutions that consume much larger quantities of nickel. Demand could reach 40% by 2025. Meanwhile, demand for copper should also rise but the impact will only be felt in 2025 when electric vehicles and recharging stations start to ramp up their market share.

Secondly electricity providers and suppliers of components for electric vehicles (batteries, semi-conductors, etc.) and infrastructure companies will be sensitive to the growth in electrification.

Finally, at the end of the value chain, electric carmakers, but also end services offered to consumers (e.g. carpooling) might benefit from new trends in mobility.

(R)evolution in mobility: the impact of electricity

Mobility is a worldwide issue. Developed countries and emerging markets are confronted with pollution and congestion problems in towns and cities. Therefore mobility is becoming a top priority for town and country planners in most countries.

Conclusion

In conclusion, the mobility theme will benefit from a long-term market trend, in our view. Investors will benefit from opportunities in a very large number of activities, both in cyclical sectors (automobile, semi-conductors, etc.) and defensive sectors (utilities), but also services and manufacturing.

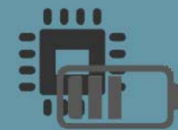
MAIN RISKS

This theme is not immune from environmental scandals in view of the need to extract raw materials to make batteries.

This theme depends on government initiatives (e.g. tax breaks).

A sharp fall in the oil price could modify the preference for electric transportation.

Although mobility benefits from long-term trends, we continue to favour cyclical sectors. Less appetite for risk might alter the bullish trend of the theme.



Source: BNP Paribas Wealth Management

Infrastructure and urbanisation, a global trend

Infrastructure is the backbone of the economy. It comprises the basic framework, facilities, networks (transport, power, communications) and buildings which a country, organisation or community needs to function competitively and to improve the standard of living of its people. There are enormous renovation needs in developed countries. However, in emerging markets, infrastructure and urbanisation are essential for reaching the next stage in their expansion.

RISK / HORIZON	LOW	AVERAGE	HIGH
< 1 YEAR			
1 YEAR			
> 1 YEAR		X	X

A global trend

In a bid to keep pace with the world's population growth (+25% by 2040) and the expansion of the middle classes, far-reaching developments will be made over the coming years in the areas of infrastructure (including upgrades) and urbanisation (strong growth). Sectors concerned by these phenomena are construction, capital goods, utilities, basic materials, infrastructure and transport. This theme also covers diverse areas such as smart grids, waste water treatment, telecommunications and waste management. Another reason for a surge in infrastructure spending (encouraging urbanisation) is the political will to boost economic prospects in as many regions as possible and underpin growth through job creation.

Enormous needs

In 2012 the World Economic Forum estimated the gap between real and essential spending (earmarked to replace existing infrastructure and investments and satisfy future demand) at $1,000 billion per annum (1.25% of world GDP). The Organisation for Economic Co-operation and Development (OECD) forecasts that more than half of all investments will be made in emerging markets.

OUR RECOMMENDATIONS

Institutional investors are interested in this theme, but they focus mainly on project finance bonds. However, our angle of approach is oriented towards equity markets, to allow individual investors to access this theme.

The theme goes beyond stock market selection and sector preferences; it is worldwide.

As it goes beyond regional preferences and covers many different sectors, an investment carries a medium risk.

This investment theme is considered as a core holding with a long-term horizon.

Infrastructure and urbanisation, a global trend

Developed countries: essentially a need for modernisation

Budgetary considerations have been hampering infrastructure investments. Moreover, infrastructure is frequently in a dilapidated state, calling for renovations for the sake of safety. In the US, the average age of roads is 27 years. Another motivation for upgrading infrastructure is technological progress. But the main reason is that infrastructure is the backbone of the economy. It comprises the basic framework, facilities, networks (transport power, communications) and buildings which a country, organisation or community needs to function competitively and to improve the standard of living of its people.

Emerging markets: infrastructure is essential for reaching the next stage in their expansion

According to a report published by PwC and Oxford Economics, two consultancies, 60% of infrastructure spending between now and 2025 will be made in Asia-Pacific, driven by China. By this date, the annual pace of infrastructure spending is forecast to grow by 7-8% on average. Each dollar earmarked to the development of infrastructure will add between 5 and 25 dollar cents to GDP growth (+5% to 25%).

The first Silk Road (or Silk Route) was created more than 2000 years ago. Established as a network of trade routes linking China to Central Asia and the Middle East, this road had an enormous impact on the entire region for many centuries.

Five years ago, Chinese President Xi Jinping laid the groundwork for building a new modern Silk Road of pipelines, rails, roads, and utility networks to link Southern, Central & Western Asia and Europe.

Today the investment opportunities are vast for 68 countries and international groups which represent more than 60% of the world's population and 30% of global GDP. The investment, estimated at $6 trillion over the coming years, will help to reshape global trade.

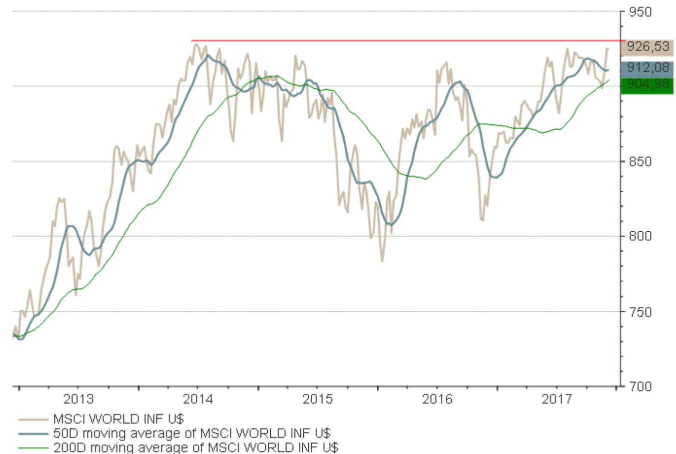
In India, 500 million people are expected to move to urban areas over the next four decades, which will usher in massive spending in infrastructure to meet their needs. As such, investments in infrastructure and telecommunications will jump from $27 billion in 2013 to $130 billion in 2025.

Infrastructure and urbanisation, a global trend

Conclusion

The infrastructure and urbanisation theme represents a core holding over the long term.

MSCI WORLD INFRASTRUCTURE: BREAKING A MAJOR RESISTANCE IS NOW JUST A QUESTION OF TIME



Source: Thomson Reuters Datastream, 12/2017

MAIN RISKS

Under-investment in infrastructure is a problem that has persisted for more than a decade. If the trend is not reversed significantly, economic growth prospects are dented. In the US, the American Society of Civil Engineers estimates that the economy will shed 2.5 million jobs by 2025 and GDP will be cut by nearly $4,000 billion if spending in new projects is not made.

The main factor weighing on projects is financing. Even though current lending conditions have rarely been so good, many countries suffer from swollen deficits and an enormous public debt.

Sustainable production methods and healthy consumption habits increase their appeal

Enjoying a healthier lifestyle in a cleaner environment is becoming an important goal for an increasing number of people. Logically, consumer habits are changing too. We take more care of our health and our attitude towards the planet is also evolving.

Fixing sustainable targets has become a top priority.

This theme seeks to capture these trends, and fits perfectly with responsible investments.

RISK / HORIZON	LOW	AVERAGE	HIGH
< 1 YEAR			
1 YEAR			
> 1 YEAR			X

Our environment has an impact on our life. Every day, we sustain negative externalities (1) which, by causing harm, can lead to a loss of well-being. A deterioration in the environment and post-industrial consumer habits may lead to undesirable effects: pollution, reduced quality of life, emergence of new diseases, food-processing scandals, etc.

Negative externalities are forcing us to change our behaviour...

Consequently, the desire to lead healthier lives is becoming a mounting concern for many people today. Conscious of the damaging effects of certain habits, growing numbers strive to adapt their lifestyle to preserve their health. These changes will lead to new consumer trends. Therefore, health-conscious people will take up activities deemed to be beneficial for their health (e.g. sport), modify their eating habits (e.g. organic food, healthier diet, etc.), be more selective in their consumption of personal products (e.g. natural cosmetics) and consume more health care (e.g. wellness, health innovations). In a nutshell, we will seek any solutions that favour prevention, rather than curative treatments.

OUR RECOMMENDATIONS

Geographical region: this is a worldwide theme. All regions (emerging markets and developed countries) will benefit from the need to lead a healthier lifestyle although the trend is much more dominant in developed countries.

Asset class: this theme can be played on equity and bond markets (green bonds) via funds or individual names. We favour sectors linked to consumption and investment.

Risk profile: medium

Investment horizon: long term

(1) Negative externalities occur when the consumption or production of a good causes a harmful effect to a third party. Pollution is one such example.

Sustainable production methods and healthy consumption habits increase their appeal

… and climate change remains a decisive collective challenge

In order to have better lives, a large number of economic players are striving for a better (preserved) planet. Climate change is an economic, financial, and health issue. The reduction of greenhouse gas and carbon dioxide emissions, the development of renewable energies and the reduction of fossil fuels are now vital sustainable goals. The world energy transition is underway. The amount of installed renewable energy capacities continues to rise. Today many companies offer solutions for a cleaner environment in areas such as energy, waste management, pollution control, water treatment.

We recommend investing in a selection of shares, bonds (green bonds) and investment funds which favour healthier living.

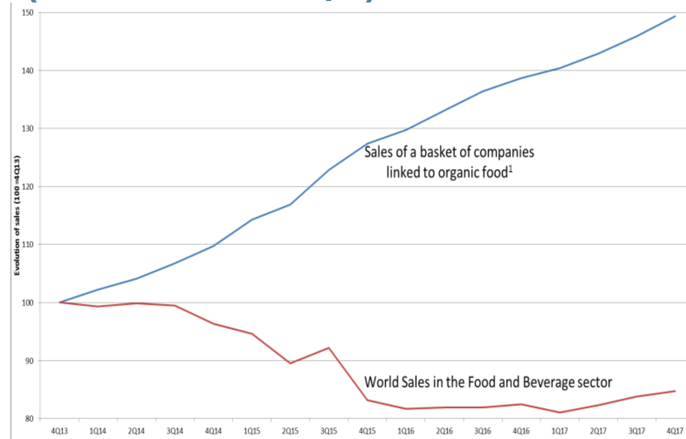
This theme covers all regions (emerging markets and developed countries). It is fully in line with responsible investments. As a reminder, Environmental Social Governance (ESG) criteria are taken into account to generate attractive financial long-term returns, while having a positive impact on the wider society. It also meets the United Nations 17 sustainable development goals set by and for governments, the civil society and companies by 2030, with the aim of shaping future actions and developments. Here we find themes such as sustainable cities and communities (Goal 11), responsible consumption and production (Goal 12), life below water (Goal 14) and life on land (Goal 15). These goals also guide responsible investments, incorporating existing ESG criteria and developing new ones.

Sustainable production methods and healthy consumption habits increase their appeal

Conclusion

In conclusion, this theme will take off when people become aware of the need to live in a healthier environment and to adopt new habits to benefit their health.

Evolution of organic food sales (in index, base 100 = 4Q13)



(1) 12-Month trailing sales

Source: Thomson Reuters Datastream, 4Q17

MAIN RISKS

Unexpected changes to policies promoting the energy transition would have a negative impact.

A disinterest in environmental issues and/or doubts about the efficiency of certain preventive solutions would be unfavourable.

Although we consider this theme to benefit from a long-term trend, it is still sensitive to market fluctuations. A sharp deterioration in market sentiment, with investors moving away from risky assets, could penalise this investment theme. Some of our solutions are cyclical in nature and thus fairly risky.

A durable collapse in oil prices could have harmful consequences on investments linked to the environment (unfavourable arbitrage).

Business investment on the rise: cyclical and secular drivers

Companies will continue to invest in 2018, thanks to the buoyant economic cycle but also because of the necessity to invest in innovative technologies to ensure their long-term productivity.

This theme identifies stocks which will benefit from this trend.

HORIZON \ RISK	LOW	AVERAGE	HIGH
< 1 YEAR			
1 YEAR			X
> 1 YEAR			X

Main drivers supporting the recovery in investment

2018 will offer opportunities in the "business investment on the rise" theme. We see two drivers supporting investment.

AN ECONOMIC CLIMATE CONDUCIVE TO INVESTMENT

The global economy is benefiting from a more favourable environment. Economic growth has taken off in a large number of countries, business and consumer confidence remains upbeat, demand for goods and services is increasing and company earnings are improving. Against this backdrop, companies are investing to secure productivity gains. The favourable economic cycle is spurring them to replace their production tools. Sometimes companies must respond to problems stemming from obsolete equipment and a lack of major investments in recent years.

OUR RECOMMENDATIONS

Geographic region: this is a worldwide theme. All regions (emerging markets and developed countries) will benefit from the ongoing recovery in business investment.

Asset class: This theme is played on the equity markets via funds and individual stocks. We favour the technology and capital goods sectors.

Risk profile: investing in sectors linked to business investment requires a constant vigilance and an acceptance of above-average risk. This theme is fairly risky.

Investment horizon: 12 months or longer to invest in companies which undertake major technology developments.

Business investment on the rise: cyclical and secular drivers

Following the sharp contraction during the 2009 crisis, business investment rebounded, but did not benefit from a vigorous momentum between 2010 and 2015. In this context, business investment picked up very slowly. A large number of companies were reluctant to invest, owing to overcapacity and lacklustre end demand. As a result, they were long overcautious about their intention to spend (see graph on the US). An acceleration in investment started in 2016 thanks to a more favourable economic climate.

LONG-TERM BUSINESS INVESTMENT

Apart from the economic climate, another challenge for companies is to develop new (often costly) investment projects, especially in the area of innovation. Indeed, certain innovations will be key in the coming decades. Analytics (big data), automation, artificial intelligence, digitisation, 3D printing, etc. are already transforming—and will continue to transform—the manufacturing process of companies. These innovations are guaranteeing—and will continue to guarantee—greater efficiency (productivity gains), and in parallel, will help to adapt products to client expectations (personalised products). According to several research consultancies, the robotics and artificial intelligence market could reach $153 billion by 2020. The boom in these new technologies also creates security problems, often difficult to manage.

These business investments go beyond the simple consideration of economic cycles and are part of a long-term trend.

Further potential in equity markets

We think that equity markets will continue to trend upwards in 2018, buoyed by an improvement in company earnings. Today the global economy is more advanced in its cycle and investment-related sectors will benefit. The aim of this theme is to invest, especially in the technology and capital goods sectors.

Business investment on the rise: cyclical and secular drivers

US Capital goods orders vs. Capex intentions survey (lag 6m)

Source: Thomson Reuters Datastream, 11/2017

Conclusion

In conclusion, we think that investment will be a key theme in 2018, thanks to a favourable economic climate and the need for companies to invest in new technologies.

MAIN RISKS

- A decline in the economy in the wake of a recession in a major economic region (e.g. the US).

- A sharp deterioration in market sentiment, with investors moving away from equities in favour of less risky assets. A strong correlation to the equity markets would have a negative impact on this fairly risky theme.

- A more aggressive monetary policy in the US and a more rapid-than-expected increase in interest rates could jeopardise this theme.

- Doubts on growth prospects in new technology stocks.

Returns
Investment Themes 2017

Returns
Investment Themes 2017

INVESTMENT THEMES FOR DEFENSIVE INVESTORS

THEME / RESULT	PERFORMANCE TO 31/12/2018*	COMMENTS
Theme 1: Managing inflation risk with financial assets: **Opportunities in Loans, Absolute Return or Newcits**	**Comparison base** **Average US and EU Inflation (Consumer Price Index) : +1.58%** Financial Assets index[1]:: +0.38% Alternative UCITs : +1.3%	Average inflation was still quite low in the US and Europe. Selected funds for this theme recorded a positive performance but this did not compensate for inflation. Alternative UCITs beat inflation.
Theme 2: How tangible assets may help to manage inflation risk:	**Comparison base** **Average US and EU Inflation (Consumer Price Index): +1.58%.**	Average inflation was still quite low in the US and Europe.
Physical Gold	Gold: +13.3% in $	Gold performed very well in 2017, helping investors to protect their capital easily in real terms – i.e. a much better performance than average inflation.
Agricultural properties, vineyards, forest	No benchmark available	Agricultural properties and Direct Real Estate rewarded investors with returns in line with previous years.
Direct Real Estate	No benchmark available	
Theme 3: Managing interest rate risk **Floating Rate Notes, Leveraged loans, short duration High Yield, Credit Linked Notes (indexed to short-term rates) and selected Newcits.**	**Comparison base** **JPM EMU Bond Index (Investment Grade sovereigns): +0.15%** Interest Rate Risk index[1]: +7% Alternative UCITs : +1.3%	Interest rate risks did not materialise. Some bond benchmarks in euro even put in negative performances but mainly due to currency effects. Our benchmark delivered a low performance. Our selection of funds recorded quite a good performance and largely beat bond performances. Alternative UCITs also outperformed an EMU sovereign bond benchmark.

[1] : Average of recommended investment funds.

* The performance of some indices was calculated on a different date in December 2017.

Returns
Investment Themes 2017

FOR BALANCED AND DYNAMIC INVESTORS - A DIVERSIFIED BOUQUET

THEME / RESULT	PERFORMANCE TO 31/12/2018*	COMMENTS
THEME 4: **Ride the reflation trade**	**Comparison base:** **MSCI Europe (equally-weighted): +9.8% in €** **MSCI US (equally-weighted): +17.1% in $** Reflation Europe index: +14% in € Reflation US index: +20.1% in $	In a more favourable macro environment, the reflation trade outperformed local indices. The expected acceleration in economic growth (and thus earnings growth) was supportive to cyclicals and banks. The relative performance, however, looks modest due to the strong positive performance of Technology stocks in global indices.
THEME 5: **Technology innovation: the key to corporate success**	**Comparison base:** **MSCI World AC-index: +21.6% in $** Innovation index (MSCI World Technology + MSCI World Industrials): +35.8% in $	The strong outperformance of this theme had cyclical and secular origins. From a cyclical perspective, the outlook for investment spending improved in 2017 on the back of stronger earnings and rising ROEs. Beyond positive cyclical developments, this theme was mainly a long-term recommendation. The reasoning was that in the context of a moderate expansion in final demand, companies have no other choice but to innovate to defend top-line growth. The continued investor focus on companies offering good visibility was another catalyst for outperformance.
THEME 6: **The connected consumer: a huge opportunity**	**Comparison base:** **MSCI AC World (equally- weighted): +23.7% in $** Connected consumer index: +43.6% in $	This theme strongly outperformed on the back of exponential growth in demand for digital products and services. In the US at least, "digital natives" became the largest segment of the population and elsewhere their share of the total population also rose. This remains a long-term investment as trends linked to the "connected consumer" are secular.
THEME 7: **Chindia – extremely complementary markets**	**Comparison base:** **MSCI World AC-index: +21.6% in $** Chindia index (H shares + Sensex): +35.5% in $	Both China and India delivered above-average returns. The reason for grouping together these two markets in one theme was their complementarity. Investing in India was, for us, an investment in a country with outstanding long-term growth prospects; investing in China was a Value investment. This remains a valid theme for the long term. Rising volatility in the near future should not be surprising in view of the overbought conditions.

* The performance of some indices was calculated on a different date in December 2017.

Returns
Investment Themes 2017

FOR BALANCED AND DYNAMIC INVESTORS - A DIVERSIFIED BOUQUET

THEME / RESULT	PERFORMANCE TO 31/12/2018*	COMMENTS
THEME 8: **Play the secular trend on stock markets**	**Comparison base:** **MSCI US (equally-weighted): +17.1% in $** **MSCI Europe: +9.8% in €** Secular growth US index: +28.9% in $ Secular growth euro index: +24.7% in €	Some sectors benefit from a secular trend in their activities, i.e. a positive earnings growth trend over the long term. These sectors outperformed in the last few months of 2017. More specifically, we identified two sectors with solid long-term growth: Technology and Health Care. The former was the big winner on stock markets over the last 12 months.
THEME 9: **Benefit from the promising growth in responsible investments**	**Comparison base:** **MSCI World NR:: +7.74% in €** SRI-Theme Funds index: +7.3% in €	This theme benefited from a good trend on stock markets and a rising investor interest in Sustainable and Responsible Investment (SRI). SRI offers numerous investment possibilities in a large number of sectors (Energy, Industrial, etc.). SRI funds usually perform in line with (or better than) traditional funds in the long term.
THEME 10: **Why favour companies with high operating leverage?**	**Comparison base:** **MSCI AC World (equally- weighted): +23.7% in $** Operating leverage index: +25.9% in $	This theme outperformed MSCI World. Thanks to the improving economic backdrop, companies with high operating leverage benefited from higher profitability. Rising sales implied higher profit margins and thus higher earnings.

* The performance of some indices was calculated on a different date in December 2017.

DISCLAIMER

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