Institutional report for professional investors

BNP PARIBAS A FUND Dynamic Multi-Asset - Commentary

MONTHLY REPORT

31/07/2024 - 30/08/2024

BNP PARIBAS ASSET MANAGEMENT

The sustainable investor for a changing world

BNPP AM is the source for all data in this document as at end 31/08/2024, unless otherwise specified.

Executive Summary

General Information

Key Figures (USD)

Fund AUM	19,830,984.51
Share class AUM	4,408,253.76
Number of holdings	14
Outstanding shares	41,639.05
NAV date	30/08/2024
NAV per share	105.87
12M NAV max (30/08/2024)	105.87
12M NAV min (26/10/2023)	88.37

Portfolio Characteristics

Fund Name	BNP PARIBAS A FUND Dynamic Multi-Asset
ISIN Code	LU2019216196
Share Class	Classic
Share Type	Capitalisation
Share Class base Currency	USD
Inception date	14/02/2020
Track record inception	14/02/2020
Share class 1st NAV date	14/02/2020
Share class initial NAV	100.00
Domicile	Luxembourg
Legal Form	SICAV
Fund type	Offered to the public
Asset type	Balanced
Investment strategy	MAQS Institutional Dynamic Solution World
Recommended investment horizon	4 years
Agreement date	14/08/2019
Initial number of shares	29,791.75
Classification SFDR	Article 6
AMF Classification	Not Applicable

Classification SFDR

This product integrates sustainability risk analysis into its investment process within the meaning of Article 6 of EU Regulation 2019/2088.

Involved Parties

Custodian	BNP PARIBAS, Luxembourg Branch
Administrator	BNP PARIBAS ASSET MANAGEMENT Luxembourg
External auditor	PricewaterhouseCoopers Société Coopérative
Management Company	BNP PARIBAS ASSET MANAGEMENT Luxembourg
Portfolio manager	Tina YAO
Fiscal closing rule	March 31st

Order Centralisation & NAV Information

Order centralisation frequency	Daily
Order centralisation time - STP	12:00 CET
NAV centralisation timing / date	Reference Date
NAV calculation frequency	Every business day in Luxembourg
NAV calculation timing / date	Reference Date + 1
NAV valorisation frequency	Daily
NAV valorisation date	Reference Date
NAV settlement timing	Reference Date + 4

30/08/2024 | Report Currency: USD

Executive Summary

Risk Disclaimer

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Risk of Capital Loss

The investments in the portfolios are subject to market fluctuations and the risks inherent in investments in securities. The value of investments and the income they generate may go down as well as up and it is possible that investors will not recover their initial outlay, the portfolios described being at risk of capital loss.

Risk Linked to the Asset Class

The risks associated with investments in equities (and similar instruments) include significant fluctuations in prices, negative information about the issuer or market and the subordination of a company's equities to its bonds. The value of investments and the income they generate may go down as well as up and it is possible that investors will not recover their initial outlay. Portfolios investing in growth stocks may be more volatile than the market in general and may react differently to economic, political and market developments and to specific information about the issuer.

Credit Risk

This risk relates to the ability of an issuer to honour its commitments: downgrades of an issue or issuer rating may lead to a drop in the value of associated bonds.

Operational and Custody Risk

Some markets are less regulated than most of the international markets; hence, the services related to custody and liquidation for the subfund on such markets could be more risky.

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Market Review

EQUITIES

- Global equities rose by 2.4% in August (MSCI AC World index in US dollar terms), ending the month at a new all-time high. This fourth consecutive monthly gain may understandably have been unexpected after the 6.4% decline between the end of July and 5 August, at the peak of volatility (VIX at 65 intraday and at 38.6 at the end of the day compared to around 16 at the end of July) resulting from forced selling on equities. The sources of this turbulence were diverse and interlinked: A macroeconomic strand stemming from disappointing US economic employment indicators that investors interpreted as a sign of recession; brisk positioning adjustments in the wake of the unwinding of yen carry-trade operations after the Bank of Japan unexpectedly raised it policy rate on 31 July; and low liquidity in the summer lull.

- The equity rally that followed was initially timid but later affirmed itself when investors felt reassured about the resilience of the US economy, slowing inflation and, finally, the prospect of cuts in key rates by the US Federal Reserve (Fed) from September. At the beginning of the month, emerging markets fell sharply (-6.3% for the MSCI Emerging Markets index in US dollar terms after the first three days of quotations) but their rebound afterwards was quite sluggish due to lingering doubts about the Chinese economy. The MSCI China index rose by only 0.9% in August, hampering the rise in emerging market equities (+1.4%). This underperformance reflected disappointments over economic growth and the continued difficulties of China's real estate sector.

- The decline in oil prices despite the rise in geopolitical risks illustrated the persistent doubts about global demand related to activity in China. The MSCI AC Asia ex Japan index posted a monthly rise of 1.8% in August, reflecting the weak performance globally in the semiconductor sector during the month.

- After the first warning in July, investors appeared less comfortable with the artificial intelligence theme despite encouraging results from leading US tech companies. This mindset may explain the modest decline in the 'Magnificent 7' index in August and the limited rise in the Nasdaq Composite (+0.6%), while the S&P 500 gained 2.3% and is up 18.4% year-to-date. Eurozone equities rose by roughly the same magnitude as the S&P 500 in August (+1.7% for the EURO STOXX 50 index; +1.6% for the MSCI EMU in euros) but their year-to-date gain has been less impressive (+9.6% and +8.2% respectively). Japanese equities were at the epicentre of the turbulence in early August (with the Topix index falling by 12.2% on 5 August and by over 20% after the first three trading sessions of the month). Despite an impressive rebound, they ended the month down (-1.2% for the Nikkei 225; -2.9% for the Topix). In addition, the appreciation of the yen weighed on exporters, while the prospect of a rapid cut in key rates in the US weighed on Japan's financial sector.
- Globally, defensive stocks outperformed in August, with the healthcare and consumer staples sectors posting the biggest monthly gains. The growth style and value style both performed in similar fashion in August: +2.3% for the MSCI AC World Growth index and +2.5% for the MSCI AC World Value index, despite the sharp fall in US bond yields that should have supported growth stocks.

BOND MARKETS

- The beginning of August was characterised by a sharp fall in US yields throughout the curve. US recession fears after the release on 1 August of the ISM (Institute for Supply Management) survey showing a slump in manufacturing employment and, on 2 August, of a disappointing employment report, led investors to reposition in government bonds. In a flight to safety in the face of the global equities sell-off, the yield on the US 10-year T-note (4.03% at the end of July) fell sharply to below 3.80% on 2 August, the lowest level year-to-date. From 5 August, it rose to return briefly to 4.00% and moved at around 3.85% for the rest of the month despite the normalisation of the situation on financial markets and the publication of reassuring indicators that allowed investors to dismiss the recession scenario in the US. It ended the month at 3.90%, a monthly fall of 13bp.

- The front end of the curve outperformed: The 2-year T-note yield (4.26% at the end of July) fell to 3.88% on 2 August (the lowest since early May 2023) when, in the face of the global equity turmoil, expectations of a cut in key interest rates by the Fed strengthened sharply. On 5 August, futures markets were pricing in an 85% probability of a 50bp cut in the federal funds target rate following the 18 September monetary policy meeting (or even earlier, with some observers believing that financial market instability justified an emergency cut before the scheduled FOMC meeting).

- These expectations normalised over the weeks but the rise in the 2-year yield remained moderate. On the one hand, producer and consumer price indices confirmed a broad-based slowdown in inflation. On the other hand, the Fed's comments made it clear that it would cut its key rates in September. Against this backdrop, the 2-year yield ended August at 3.92%, a monthly fall of 34bp, and the yield curve steepened: The spread between the 10-year and 2-year yields is now virtually zero from around -45bp at the end of 2023 and around -20bp at the end of July. US Treasuries gained 1.3% in August.

- The broad-based rise in government bonds at the beginning of the month sent the yield on the German 10-year Bund (2.30% at the end of July) to 2.17% on 2 August, its lowest since early February. The rate then trended moderately upward to end August at 2.30%. Although a 25bp cut in key ECB interest rates seems very likely and is fully anticipated by futures markets, there was some nervousness over the more cautious statements from some ECB members. Isabel Schnabel considered that the recent data confirmed the central scenario of a return of inflation to 2% by the end of 2025. However, she also warned that things could go wrong and that the ECB therefore needs to work on 'plausible alternative scenarios'. These statements reflected a gradual and cautious approach to monetary policy easing. The Governor of the Banque de France said it would be 'wise' to cut interest rates in September. Futures markets' expectations of just over two cuts by the end of the year (62bp cumulative, i.e. '2.5 cuts') still seem somewhat excessive and could continue to adjust to reflect the consensus scenario among market economists of a 25bp cut each quarter. Against this background, the German 2-year yield (2.53% at the end of July), after falling to 2.35% in early August, moved around 2.40% thereafter to end at 2.39% (-14bp in one month). The gain in German bonds in August (+0.4%) was more modest than that of their US counterparts. Monthly returns were of the same magnitude in the main eurozone markets despite spurts at the beginning of the month when non-German markets suffered from the sharp rise in risk aversion. Even though the French political situation remains hard for foreign investors to understand (no Prime minister appointed yet; caretaker government), that does not explain the widening to nearly 80bp of the 10-year OAT to Bund yield spread in early August. The France-Germany spread then quickly returned to 70bp.

- The credit market remained resilient despite the turmoil in other risks assets at the beginning of August. Thereafter, like other assets that experienced a major sell-off, it quickly resumed its rising trend once the peak of volatility passed. Total returns were positive in all segments and particularly strong in US credit given the easing in US Treasury bond yields in August and the encouraging news about economic growth that effectively ruled out the prospect of a US recession. Issuance on the European Investment Grade (IG) market bounced back from the beginning of the second half of August. The issues were well absorbed, but the large size of the supply (in the non-financial sector) and a greater appetite for shorter maturities may explain why the credit spread on the EU IG index ended at its highest since the end of June (with the exception of the high levels posted in early August). In the other segments (IG US, High Yield US, High Yield EU), spreads ended August below their end-of-July levels.

Portfolio Activity & Positioning

Our portfolio remains largely unchanged. We remain cautious towards taking on more risk, and the portfolio continues to be well-diversified. We selectively trimmed both equity and fixed income on profit taking.

Fund Performances

By Sector

Top sector performance contributor: Real Estate Global, Europe Equity and Emerging Equity

Top sector performance detractor: Japan Equity

By Fund

- Top performance contributor: Principal Global Investors Fun SHRS, Comgest Growth PLC - Europe SHRS and Vontobel Fund - mtx Sustainabl SHRS

  Top performance detractor: Pictet - Japanese Equity Oppor SHRS

Outlook & Positioning

- Without a Federal Open Market Committee (FOMC) meeting in August, the federal funds target rate remained unchanged and has been within the 5.25%-5.50% range since July 2023. Expectations for the Fed's monetary policy varied widely in August. At the beginning of the month, in the wake of market turmoil and fears of recession, futures markets began to reflect more than 100bp of cumulative rate cuts by the end of the year. It had been less than 75bp at the end of July and less than 50bp in early July. Three FOMC meetings are scheduled to the end of 2024 and this assumption therefore assumes at least one 50bp cut. At the peak of volatility in various asset classes, some observers forecast an emergency cut before the FOMC meeting on 18 September. This extreme scenario lost ground during August. Reassuring news on inflation, comments from FOMC members and, finally, Jerome Powell's speech at the Jackson Hole symposium on 23 August ('The time has come for policy to adjust') convinced investors that a cut would indeed be announced in September. At the end of August, futures markets still put a 30% chance on a 50bp cut (it was 85% on 5 August). The Minutes of the FOMC meeting on 30/31 July showed that, for most FOMC members, the main risks are now rising unemployment and declining inflation. Several members thought a rate cut would have been justified in July. All this could suggest a 50bp cut. In his Jackson Hole speech on the economic outlook, Jerome Powell clarified that the Fed is not 'seeking further cooling in labour market conditions' and would not 'welcome' such a move. Besides, committee members whose opinions really count said they favour a moderate approach given the remaining uncertainties.

- We expect the market will continue to be volatile as we are entering the end of the rate hike cycle, and so our portfolio remain largely unchanged. We remain cautious towards taking on more risk, and the portfolio continue to be well diversified.

- The broad positioning is as below:

- US equities (Positive). We are still positive on US tech exposure. From a fundamental perspective, cash flows - earnings + dividends - increasingly hold the key for equity returns, and US tech are earning strongly, corroborated so far this season. Earnings dynamism is judged to be strong in the short term, form both the bottom up and top down, and with good and growing support from themes such as AI for earnings longer term. As 'longer duration' equities, they also stand to benefit from lower discount rates, while being less exposed to a higher for longer than a pure duration play with firm anticipated cash flows. Valuations are not cheap, but the delta on the P and E have both moved favorably for an add to our position; importantly, valuations are justified by elevated RoE and profitability.

Performance & ex-post Risk

Portfolio Commentary

- European equities (Neutral). In our opinion, inflation might soften but also growth in the months to come. ECB is near its end of rate hiking cycle but not yet ready to cut rate.

- Japanese equities (Neutral). forward PE ratios trade at a 15% discount to global equities, and P/B is 50% of ACWI. With a clear structural focus on raising shareholder returns, and high operational leverage to tentative 'green shoots' in global manufacturing as well as to the technology sector, Japan is particularly well placed to benefit from the current market set up. Tighter policy may be supportive for financials. However, earnings are no longer outpacing other equity regions and global appetite for Japanese Equity is also waning. So we turned neutral.

- Emerging Market equities (Positive). From a macroeconomic standpoint South Korea is a typical beneficiary of a potential upturn in the global manufacturing cycle; and this especially knowing the low levels of the inventories. From a microeconomic point of view, 2 companies dominate in Korea: Samsung and Hynix. Those are set to benefit from Nvidia revenue growth. Hynix and TSMC are known beneficiaries from Nvidia supply chain.

- Commodities (Neutral). More positive towards precious metals. The supply-demand imbalance softens in the energy and base material space. Only precious metal in the commodities space can perform as the rate hike cycle coming to an end.

- Credit (Positive). Especially towards European investment grade bonds. European IG appears to be pricing in a particularly adverse scenario, making valuation attractive.

- Emerging market local sovereign (Positive): with inflation dynamics for almost all EMs sharply to downside recently, real policy rates are quite elevated. Hence, lower policy rate and long end rate ahead DMs.

- We hold other positions like real estate and US inflation linker for diversification

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Appendix

Exchange Rates

Exchange Rates

as of 30/08/2024

ISO Code	Currency name	1 USD =
AUD	AUSTRALIAN DOLLAR	1.473839
EUR	EURO	0.903424
GBP	BRITISH POUND	0.760890
SGD	SINGAPORE DOLLAR	1.303450

Appendix

Glossary

Benchmark or benchmark index

Index used to represent the market(s) which a fund is supposed to be invested. It is the standard by which the performance of an investment fund is measured.

Maturity

The time that remains until the rights associated with a financial asset expire. The maturity of a share is in theory infinite, while that of a bond depends on its principal repayment date, or ''maturity date''. A bond's actual maturity may be cut short if the issuer is able to call or redeem the bond before the maturity date.

Maximum drawdown

The maximum loss that a portfolio incurs over a given period (expressed as a percentage), taking into account monthly performance observations.

Basis point

A hundredth of a percentage point, or 0.01% (abbreviated as bp).

Information ratio

The difference between a portfolio's returns and those of its benchmark, divided by the portfolio's tracking error. Measures a fund manager's risk-adjusted performance relative to the benchmark.

$$IR = \frac{Ret_{Fund} - Ret_{Bench}}{TE}$$

Sharpe ratio

A measure of an investment's performance relative to the risk incurred. It is calculated by dividing the difference between the portfolio's return and the risk-free interest-rate by the portfolio's volatility.

$$Sharpe = \frac{Ret_{Fund} - Rate_{riskfree}}{\sigma_{ann.}}$$

Duration

Expresses the potential variation between the price of a bond (or bond portfolio) in response to a 1% change in the interest rate.

$$Modified\ Duration = \frac{Duration}{(1+r)}$$

$$r = bond\ yield$$

Tracking error

The standard deviation of the differences between fund and benchmark returns over time. It represents the risk that the fund manager takes in straying from the benchmark.

$$TE_{ann.} = \sqrt{\frac{\sum_{i=1}^{N}(PR_i - Av(PR_i))^2}{n}} x\sqrt{k}$$

$$PR_i = excess\ return$$

Volatility

A measure of risk as the standard deviation of a portfolio's returns above and below its average return over a specified investment period. For example, if a portfolio has a volatility (risk) of 8% this means that it will on average vary 8% above or below its average return over the investment period.

$$\sigma_{ann.} = \sqrt{\frac{\sum_{i=1}^{N}(P_i - Av(P_i))^2}{n}} x\sqrt{k}$$

Where Avg (P_iis the average of n returns and k is the number of investment periods in the year.

R^2

Statistical measure that represents the proportion of a fund or security's movements that can be explained by movements in a benchmark index. R^2 values range from 0 to 1. An R^2 of 1 means that all movements of a security are completely explained by movements in the index.

Appendix
Legal Disclaimer

Legal Disclaimer

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