INVESTMENT STRATEGY

March 10

Committee meeting of March 5, 2010

Contents

March 11, 2010

Slightly less nervousness in the past month

The sharp correction with which the year began halted around February 8 to make way for a phase of return to relative quietness, with a decline in risk aversion. The stock market indices rebounded, but the trend is not uniform and markets have not completely returned to the levels that prevailed before the decline. Two of the main sources of concern that caused the equity decline in January are still present: fears about Greece, despite the commitment by the European authorities to provide support if necessary, and rather disappointing economic statistics.

As regards Greece, after several weeks during which the official statements remained fairly vague, the announcement on March 3 of a new set of very restrictive measures to comply with the deficit reduction commitment was generally well received. However, even after the 5 billion euro Greek 10-year bond issue was heavily over-subscribed, uncertainties remain. Moreover, the economic indicators proved disappointing, especially in the euro zone, where the exit from recession is taking place at a very moderate pace and seems to be based largely on external demand. The US economy, for its part, continues to benefit from the industrial recovery, but employment and the real estate market still show signs of weakness and the monetary authorities' comments on the economic situation remain very cautious.

In the short term: maintain the position in risky assets

Investors are gradually adapting their scenario to the news. The possibility of a gradual slowdown in global growth is slowly becoming accepted, while the industrial rebound is proving unable to spread to the economy as a whole in the developed countries. Regarding monetary policy, the gradual removal of the exceptional financing measures adopted shows that they are no longer necessary, because the market's functioning has improved. Finally, investors should eventually realise that, for political reasons, Greece will not be abandoned by its European partners.

Accordingly, although the predominant themes remain roughly the same since the start of the year, their perception by investors could vary over time, initially offering some respite for stock markets. Note, for example, that two subjects that had contributed to the stock market correction in January, namely the objective of the Obama administration to scale back banks' activity in financial markets (the "Volcker rules") and the credit control measures adopted by the Bank of China, have apparently been "forgotten" subsequently.

In three to six months' time, the environment will appear less favourable

The concerns expressed recently reflect real facts: a slowdown in growth in developed regions; public finances in a poor state which require, if not austerity measures, at least some efforts; gradual normalization of monetary policies even though key interest rates will remain low at least until the end of this year. Although, as we believe, the risks of a renewed recession and of government bankruptcies may have moved away, it is hard to imagine that investors can remain permanently serene faced with this new context.

ASSET ALLOCATION

Allocation decisions

- We maintain our overweight stance on equities, still preferring the developed markets.
- We are neutral on government bonds: the lack of inflationary pressure is offset by the cyclical recovery and the high volume of issuance. In relative terms, we prefer US to UK bonds.
- Overweight position on credit, where the fundamentals are improving and the technical factors are still positive. But watch out for a turnaround in a market that is already very long.
- Overweight position in commodities generally, wagering especially on base metals, which are more exposed to the global cyclical recovery.

Developed equity markets

- We are adopting a negative play on the euro zone. Despite relatively attractive valuations and exposure to the pickup in global trade, the weak prospects for domestic growth and the issue of consolidation of public finances will probably continue to penalize this market.
- We remain overweight on the United States (solid industrial recovery, sharp rebound in earnings prospects and still accommodative monetary policy) and the UK (where economic vulnerabilities are offset by the positive impact of the weak pound on exports and repatriated earnings, and an accommodative monetary policy).
- We remain neutral on Japan, where despite a fiscal stimulus package and exposure to high-growth Asian countries, deflationary pressures and a strong yen weigh on earnings prospects.
- We are reducing our underweighting on Canada due to our more positive view of commodities, but the strength of the CAD and relative valuation factors plead for caution. Likewise, we have slightly reduced our negative bet on Switzerland, due to good economic surprises and a positive relative price momentum.
- We remain underweight on Australia, due to tightening financial conditions (monetary policy and strong AUD) and high relative valuations.

Emerging equity markets

- Few changes this month. We still prefer South Korea and Taiwan, where equities should benefit from the global recovery, upbeat earnings prospects and attractive relative valuations.
- Slightly negative play on the BRIC countries, where we are underweight on China (declining momentum of earnings revisions) and Brazil (high valuations) and neutral on India and Russia.

Typical diversified model portfolio – Institutional clients

The model portfolio holdings below are measured against cash and may be transposed into any other portfolio, whether benchmarked or not.

MULTI-ASSET CLASS1

	Alpha	Current weight	Previous *weight*
EQUITIES			
Developed Equities	0.1	1.1%	1.0%
Emerging Equities	0.1	0.6%	0.6%
FIXED INCOME			
Government Bonds	0.0	0.0%	0.0%
Investment Grade	0.0	1.4%	1.4%
High Yield	0.1	0.9%	0.7%
COMMODITIES			
Brent Oil	0.1	0.4%	0.3%
Base Metals	0.1	0.6%	0.5%
Gold	0.0	0.3%	0.3%
Agricultural	0.0	0.3%	0.3%
Cash Euro		-5.6%	-5.1%
Module Total		0.0%	0.0%

PORTFOLIO STATISTICS

Target Ex-ante Volatility	1.00%
Real Ex-ante Volatility	0.78%

1-Hedged in Euro, 2-Local Currency

EQUITIES: DEVELOPED COUNTRIES1

	Alpha	Current weight	Previous *weight*
US	0.2	2.1%	1.8%
Canada	0.0	-0.2%	-1.2%
Euroland	-0.1	-1.7%	1.4%
Japan	0.0	0.0%	-0.2%
UK	0.1	1.8%	1.2%
Switzerland	-0.1	-1.1%	-2.4%
Australia	-0.1	-0.8%	-0.7%
Module Total	0.0	0.0%	0.00%

BOND COUNTRIES SOVEREIGN 1

	Alpha	Current weight	Previous *weight*
US	0.3	6.6%	6.4%
Euroland	0.0	-0.5%	-0.5%
Japan	0.0	-0.5%	-0.5%
UK	-0.3	-5.1%	-5.1%
Switzerland	0.0	-0.5%	-0.5%
Module Total	0.0	0.0%	0.00%

EQUITY EMERGING COUNTRIES 2

	Alpha	Current weight	Previous *weight*
Brazil	0.0	-0.4%	-0.5%
China	0.0	-0.5%	-0.3%
India	0.0	0.0%	-0.5%
South-Korea	0.0	1.6%	1.5%
Taiwan	0.0	0.9%	0.7%
Russia	0.0	0.0%	0.5%
South Africa	0.0	-1.2%	-1.6%
Turkey	0.0	-0.4%	0.3%
Module Total	0.0	0.0%	0.00%

ECONOMIC OUTLOOK

Viewpoint

Still hard to get a clear picture

Everything's fine. Really? Although the environment has not radically changed, investors' perception of it has evolved, and the atmosphere is swathed in a pink cloud through which everything seems more attractive. Once again, the reaction to the publication of the monthly US employment figures illustrates the dominant attitude. The number of job destructions in February was slightly lower than expected (36,000 versus 68,000 according to the consensus published by Bloomberg), and this news was very well received, leading to a 1.4% rise in the S&P 500 index in the session of Friday March 5 alone. But can one really rejoice at the fact that eight months after the resumption of growth, the US economy is still not able to create jobs even though numerous measures have been adopted to encourage companies to hire, and a specific new plan was enacted recently? Logically no, and US households are not to be fooled, judging by confidence surveys which have remained at low levels for some months now. Despite this, the statistics are considered positive if they just exceed expectations, and the frankly disappointing figures regarding US real estate and the economic vigour of the euro zone have not prevented a sharp recovery in equity prices in recent weeks (7.8% rise between February 8 and March 8 for the MSCI World Index in dollar terms). As regards Japan, a series of favourable economic indicators have enabled the Japanese market to stay firm despite persistent deflation.

Why such enthusiasm? Since the start of the recession, as we have already emphasized many times, forecasters have found it hard to analyse the situation: first they were excessively pessimistic, and then they let themselves be convinced by the flow of data reflecting industrial recovery and started to anticipate a return to a very sustained growth rate for the economy as a whole. They are now revising their forecasts, and this should bring growth expectations back to more realistic levels. Their job has been complicated by an extremely bumpy inventory cycle and is likely to be even more so when they have to analyse the data for February and early March, disrupted by exceptional weather conditions that brought activity to a standstill in several major countries (United States, Germany, etc.). The vagueness of the scenarios in the forecasts for 2010, and especially 2011, is not about to vanish in a context of ongoing transition between recovery and the "new normal". It is precisely the nature of this "new normal" that has observers divided. We are convinced that growth will be subdued because indebtedness (both public and private) must be reduced. We do not expect the recession to return, but neither do we think that growth will regain its pace of the early 2000s in the developed countries (3% on average for the OECD between 2004 and 2007). For the emerging countries, the situation is different, because the structural factors driving economic development are still in place. Accordingly, after a foreseeable slowdown in the near term (according to the OECD, the latest leading indicators for Brazil and India point to a recovery that "is losing its momentum", while the Chinese PMI figures declined in February), growth should remain solid, boosting the performance of the global economy. So long as the current transition phase lasts (restocking, to which can be added, for at least two months, statistical disruptions due to weather conditions), all the scenarios will be able to coexist. After being highly positive ("back on course again"), the tiller is now between the two extremes ("growth will remain sluggish") but could just as well switch to greater pessimism ("watch out for a relapse").

In this situation, investors will be forced to navigate by sight for a few more months. The perception of the economic indicators in relation to the predominant scenario at the time will be important in the near term, as in February, when the scenario gradually adapted to the published statistics. Ultimately, the hypothesis of sluggish growth, inadequate to reduce unemployment significantly, is likely to prevail and be confirmed by various publications (including microeconomic reports) in the second half of the year. Investors will then have a clearer view, but will probably not like what they find.

Consensus Forecasts: Growth & Inflation

08/03/2010	GDP y.o.y %									Inflation y.o.y %								
	2009	2010				2011				2009	2010				2011			
M= Mean; H= High; L=Low		M	H	L	-1M	M	H	L	-1M		M	H	L	-1M	M	H	L	-1M
Developed Economies																		
USA	-2.4	**3.1**	4.0	2.5	[2.9]	**3.0**	4.4	1.4	[3.1]	-0.3	**2.3**	3.4	1.5	[2.2]	**2.0**	3.9	0.4	[1.9]
Canada	-2.5	**2.7**	3.3	2.1	[2.6]	**3.2**	3.9	2.2	[3.2]	0.3	**1.8**	2.2	1.4	[1.7]	**2.2**	3.0	1.7	[2.2]
Euro zone	-3.9	**1.3**	2.4	0.6	[1.3]	**1.5**	2.2	1.0	[1.6]	0.3	**1.2**	1.5	0.7	[1.2]	**1.5**	2.5	0.8	[1.5]
UK	-4.8	**1.4**	2.2	0.9	[1.5]	**2.2**	3.1	0.5	[2.2]	2.2	**2.6**	3.8	1.6	[2.4]	**1.7**	3.6	0.3	[1.7]
Switzerland	-1.5	**1.3**	2.2	-0.4	[1.2]	**1.8**	2.8	0.9	[1.7]	-0.5	**0.7**	1.2	-0.1	[0.7]	**1.0**	1.7	0.0	[1.0]
Japan	-5.3	**1.5**	2.6	0.8	[1.3]	**1.5**	2.1	0.5	[1.5]	-1.4	**-1.0**	-0.7	-1.6	-[1.0]	**-0.3**	0.6	-0.8	-[0.3]
Australia	1.0	**3.0**	3.8	2.0	[2.9]	**3.3**	4.0	2.5	[3.2]	1.8	**2.5**	2.8	1.9	[2.5]	**2.8**	3.3	2.5	[2.7]

Source: Consensus Forecasts as of 08/02/2010

ECONOMIC OUTLOOK

Developed economies

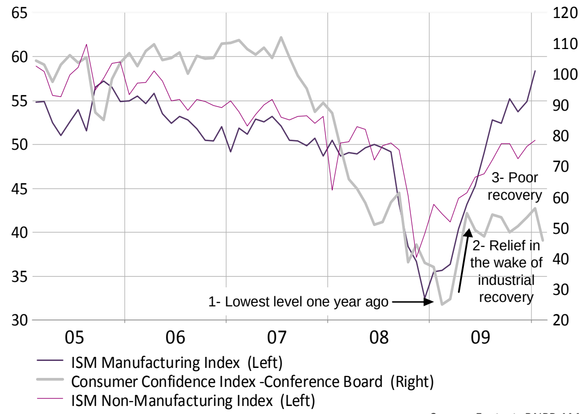
In the United States, manufacturing activity remains vigorous

The ISM Index fell slightly between January (58.4) and February (56.5), but has remained above the threshold for overall economic expansion (42) for the past 10 months. Manufacturing activity has been growing for seven months now and the more qualitative comments added by purchasing managers show that this momentum is unlikely to abate in the near term (orders growth, rise in commodity prices, etc.). The employment index has been above 50 for three months now without this being reflected in hiring as yet. The service sector is starting to partly catch up its lag (with an index at 53 in February). Employment in the sector (80% of total employment) remains poor.

These surveys sum up the challenge for the US economy in the coming months: either all sectors benefit from the manufacturing rebound, as in the past, and in that case GDP growth will be very firm until the end of the year and even beyond, or **the industrial pickup fails to spread fully to the economy**. We consider this second possibility most likely, without necessarily concluding that the current recovery will be merely a flash in the pan. First, the vigour and speed of the industrial rebound reflect the collapse that occurred at the end of 2008. This phenomenon can also be seen in the inventory cycle, especially pronounced this time both in the recession and in the recovery. Next, **employment has not materialized** and companies are apparently not as inclined to rehire staff as quickly as they shed jobs: 8.4 million jobs have been destroyed in two years since the high of December 2007 and only a feeble stabilization can be observed in the past three months. The use of temporary work (up sharply since September 2009) is admittedly a forerunner of a job recovery, but also shows that companies are quite happy with flexibility. At the same time, households are still very concerned about the job market.

In these circumstances it is hard to imagine that private consumption could greatly exceed a growth rate of 2% to 2.5%, especially since buying on credit is no longer common practice, even though the conditions extended by banks are now less restrictive. The recent disappointments regarding home sales do not, in our opinion, point to another market collapse but show that the recovery will be subdued after years of excess, the consequences of which are still visible (foreclosure sales at very low prices which "cannibalize" the rest of the market) despite home builders efforts to reduce stocks. Finally, the expected rebound in productive investment after an almost complete freeze in spending will probably be confined to renewal purchases.

United States: households are unconvinced by the recovery



Source: Factset, BNPP AM

After the 5.9% growth (at an annualized rate) in the fourth quarter of 2009 and a figure that will probably still be in the comfort zone in the first and second quarters of 2010, **the US economy remains fragile**, and for the current year the Obama administration has therefore maintained a stimulative fiscal policy (increase in the deficit to 10.5% of GDP for fiscal year 2010), adopting highly targeted new measures, especially concerning employment and SMEs.

The increase in the discount rate is basically a technical measure. As the Fed specified when announcing on February 18 its decision to raise its discount rate from 0.50% to 0.75%, this increase is not a tightening of monetary policy but a sign that the normalization of credit facilities is well on track. The expression "extended period" was repeated, which is an important message. In other words, the Fed is raising its discount rate due to "the ongoing improvement in conditions in financial markets" but will keep the Fed Funds target rate "exceptionally low". Over the coming months, and with economic statistics starting to send a slightly more confused message on growth (industrial rebound but persistent vulnerability), the Fed will confirm its cautious scenario and clarify its message before switching to real monetary tightening, which will take place, in 2011, through a rise in floor interest rates (remuneration of reserves and Fed Funds target rate) and a reduction in the size of these surplus reserves. Shorter-term, it is expected to continue raising its discount rate to reduce the differential with the Fed Funds target rate to the level prevailing before the crisis (i.e. 100 bp) and complete by the end of March, as planned, its programme of purchases of MBS instruments and agency debts. In the immediate future, it is unlikely to radically change its communication following the next FOMC meeting (March 16).

ECONOMIC OUTLOOK

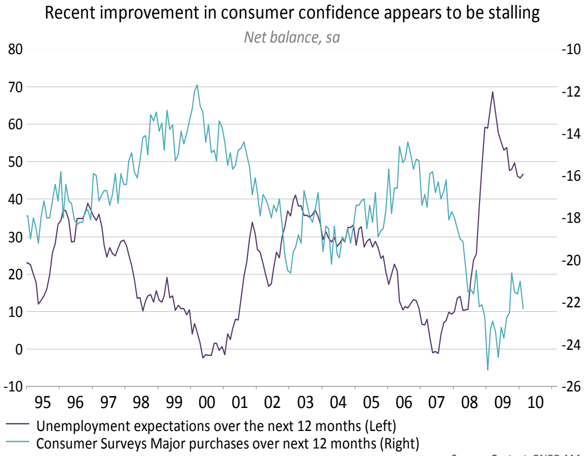
Developed economies

Fears of a renewed decline in activity in the euro zone

Euro-zone GDP growth was confirmed at 0.1% in the fourth quarter of 2009. This moderate growth, which leaves the year-end figure at -2.1% year on year, is mainly due to a positive external contribution (+0.3 percentage point). Private and public spending remained stable quarter on quarter, and investment continued to decline (-0.8%). Export growth (+1.7%) obviously helped manufacturers and should continue to do so: the order books are still well filled and the recent fall in the euro (down about 4% relative to the average level in the fourth quarter of 2009 against a currency basket) should be a positive factor in the coming months.

Surveys of company managers confirm the resilience of the manufacturing sector but the economic situation as a whole is becoming rather hesitant faced with an extremely subdued exit from recession, especially compared with the performance of the other major G7 countries (North America and Japan). Demand from emerging markets should remain at a fairly high level – even though the acceleration in this area is no doubt behind us – and this should benefit exporting countries and encourage them to stimulate their productive investment. In Germany, where exports grew 3% in the fourth quarter following 3.4% in Q3, a rebound in productive investment should take place following the very disappointing year-end figures.

Euro zone: fading consumer confidence



Source: Factset, BNPP AM

Sectors related to domestic consumption (retail, services) are likely to be adversely affected for a longer time due to a still very high unemployment rate (9.9% in January). Moreover, governments are set to introduce, or at least announce, measures to restore the public finances. They will no doubt be less drastic than the decisions taken by the Greek government, but it is nevertheless a fact that consumers can expect to see taxes rise or, at the least, fiscal stimulus measures gradually eliminated. Such expectations will tend to cause them to increase their savings (15.8% of disposable income in the third quarter of 2009, down very slightly) rather than spend on large-ticket items.

The ECB moves forward stealthily. As he had said he would in February, following the Governing Council meeting of March 4 Jean-Claude Trichet provided some clarifications regarding the withdrawal of unconventional measures. The decisions are a continuation of those taken last December and the resumption of normal refinancing procedures, such as those prevailing before the crisis, is very gradual. The interest rate applied for the last 6-month refinancing operation will be indexed on the future weekly operations, regular 3-month operations will return to their auction system from April 28, and one-week operations will remain as is (no ceiling, operation conducted at the refi rate) at least until October. This is a gentle normalization process, especially since the most recent forecasts by the ECB's staff remain very cautious: on average, GDP growth is expected to be 0.8% in 2010 and 1.5% in 2011. Inflation (0.9% in February according to the Eurostat's flash estimate) is expected at 1.2% this year and then 1.5% next year, far below the medium-term target of 2%. The ECB considers that economic recovery is under way but will remain uneven, and has reasserted that, at 1%, the refi rate is at an appropriate level. Against this backdrop, we confirm our assumption of a status quo regarding this key interest rate at least until the end of the year. The unconventional measures will be withdrawn over the coming months, taking care not to destabilize the interbank market and making sure that banks will continue to have access to all the liquidity needed. Although the choice of the Portuguese Victor Constancio to become next vice-president of the ECB strengthens the chances of the Bundesbank president, Axel Weber, to replace Jean-Claude Trichet in 2011 (in accordance with an unwritten rule of "North-South sharing" of responsibilities between euro-zone countries), do not expect strict monetary orthodoxy to be resumed tomorrow.

The UK economy will be penalized by its imbalances. The GDP growth figure for the fourth quarter has been revised slightly upward and now stands at 0.3% (versus 0.1% according to the first estimate). Private consumption picked up (+0.4%) while investment remains very subdued (-5.8%). The initial production and private spending figures for 2010 are rather disappointing.

ECONOMIC OUTLOOK

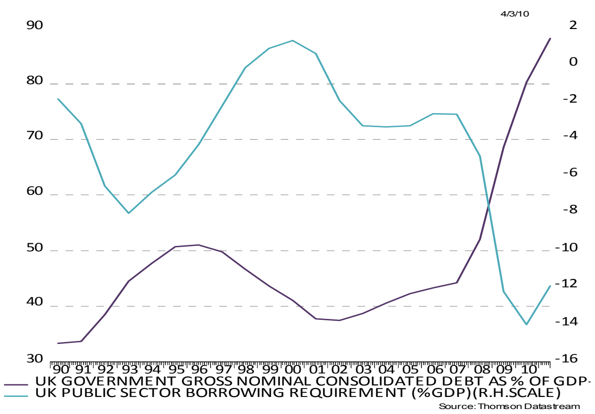
Developed economies

Sharp cyclical rebound in Japan

Retail sales declined by 1.8% from December, probably due to the VAT hike, which led consumers to move their purchases forward to December. The weather conditions did not facilitate travel to the shops and also weighed on manufacturing activity, down 0.9%. The latter result is unlikely to be the start of a downward trend, because various surveys suggest an improvement in business sentiment. The monthly survey of industry (CBI) in February underlines the pickup in foreign orders, which are supporting the production outlook, to their highest level since March 2008. Purchasing manager surveys convey the same message: the PMI Index for the manufacturing sector stood at 56.6 in February while the figure for the service sector was 58.4, the highest level since January 2007.

In January, inflation was 3.5% year on year (following 2.9% in December). This trend was expected: it reflects the VAT hike (from 15.5% to 17.5%), the less favourable base effects concerning energy prices and the weakness of the pound (approximately a 70% rise in one year in the oil price expressed in GBP). The Governor of the BoE, as he is obliged to do, wrote a letter to the Chancellor of the Exchequer to explain this temporary rise above the 2% target. As already indicated in the quarterly report, it is more the risk of a pronounced deceleration of inflation, related to the low utilization of production capacity, that worries the BoE. The meeting of March 4 came to an end without any change in monetary policy (key interest rate at 0.5% and GBP 200 billion programme of security purchases). This programme could be reviewed in the coming months given the BoE's caution regarding growth and inflation and the prospect of seeing the government in place after the upcoming elections fairly quickly introduce a budget policy designed to prevent any threat of a downgrade of the United Kingdom's AAA rating.

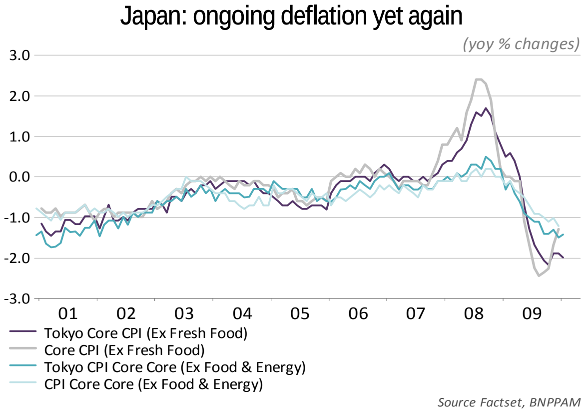
United Kingdom: very poor state of public finances



Very sharp acceleration in Japanese growth at end-2009. The revised GDP growth figure for the fourth quarter stands at 0.9% quarter on quarter. This performance is due to a strong external contribution (0.6 percentage point) but also to growth in private spending (for the third consecutive quarter) and a pickup in productive investment. The contribution from inventories was practically zero but is expected to become highly positive given the significant inventory rundown noted in 2009. In the first quarter of 2010, momentum should remain favourable, with the indicators on the whole confirming the rebound in industrial activity and the relative firmness of consumption. Corporate and household surveys, for instance, show that sentiment has recovered after some hesitancy at the end of 2009: the fiscal measures stimulated growth and improved employment. The unemployment rate, which has been declining since July (5.6%), stood at 4.9% in January. It remains very high in absolute terms and is far above the NAIRU, which the OECD estimates at about 4%. More generally, the economic policy focus on stimulation of domestic demand seems to be bearing fruit. The move will of course be very gradual, and exporting firms remain crucial for the Japanese economy. The level of the yen since the start of the year (around 90 yen to the dollar) is not very far from the threshold considered critical by exporters (92.9 according to a recent survey). The prospect of a gradual decline in the Japanese currency in 2010 in a context of continuing firm demand from the rest of Asia could sustain activity.

The Japanese economy is still faced with deflation (1.2% year-on-year decline in January for the index excluding food and energy) and the BoJ does not seem inclined to take additional measures despite political pressure, and has denied rumours of further monetary easing. It is likely, at least initially, to be content with an extension of the liquidity injection measures introduced in December.

Japan: ongoing deflation yet again



ECONOMIC OUTLOOK

Emerging economies

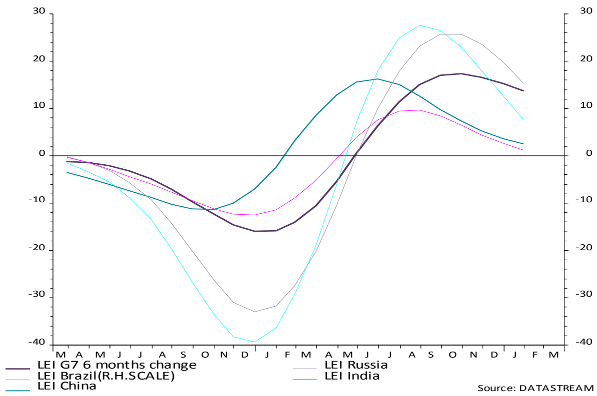
Economic growth: less acceleration, but still high levels

Economic activity in emerging countries is still sustained, as suggested by the sharp rebound in industrial output and exports. On a horizon of two or three quarters, the leading indicators have already started to turn around, and the decline gathered momentum recently. This means that the growth rate has stopped progressing and a pause is expected in the coming months. In Brazil, the trend in private-sector lending, a proxy for consumption, which accounts for 65% of GDP, has turned around. In China, investment, which contributed to more than half of the economic rebound last year, will be sharply reduced this year following the withdrawal of the fiscal and monetary stimulus measures. India is following the same trend with a readjustment of its monetary policy. Lastly, Russia is lagging the cycle, with the leading indicators still showing upward momentum of activity.

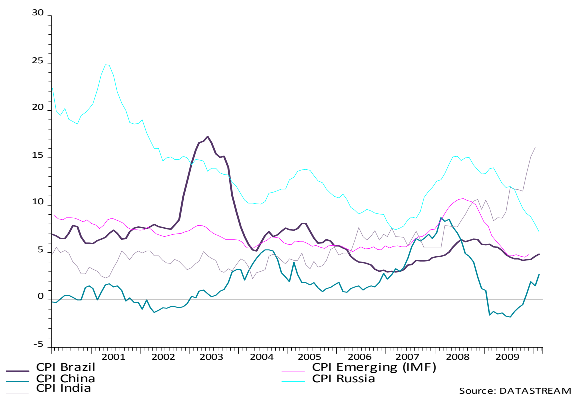
Emerging-region growth remains at a high level, exceeding 5% for 2010 according to the IMF, but below the trend of the preceding decade. In the two growth engines of China and India, GDP is expected to grow by 9.5% and 8% respectively. We believe that the transition from an economy boosted by fiscal stimulus packages to self-sustaining consumer-led growth is well under way. Domestic consumption is well anchored in Brazil and India, while Chinese exports and retail sales will take over from investment as growth drivers. As a reminder, the sovereign debt crisis in the peripheral countries of Europe is unlikely to affect economic prospects in emerging countries, where the debt ratio is only 40% of GDP, versus over 100% for the advanced countries, and the fiscal deficit is relatively moderate as a result of years of austerity.

Whereas inflation risks are moderate in developed countries, the situation is more delicate in emerging economies due to a different price dynamic. In particular, the weight of food products, especially unprocessed products, is 50% greater in emerging economies than in developed economies. Rising agricultural prices will therefore temporarily drive up the inflation rate over the coming months and influence monetary policies. This is especially true in India and China. Moreover, the sharp rebound in activity has enabled full utilization of production capacity, leading to pressure on wages. However, economic fundamentals should justify a return in the medium term to the downward trend of inflation.

OECD leading indicators: slowing momentum



Inflation: short-term worries, especially in India and China



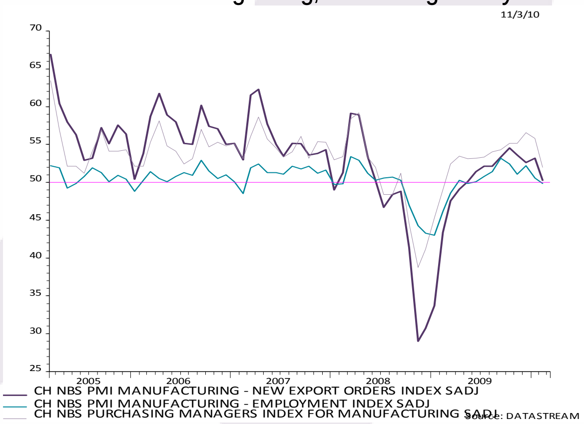
The Chinese economy was still very robust at the start of this year. Industrial output leapt 20.7% at an annualized rate, the highest growth since 1995. Investment grew by 26.6% thanks to firmness in the property sector, which offset sluggish spending on infrastructure, while retail sales posted 17.9% growth. Car sales are still remarkably high, up 85.5% year on year. Foreign trade is also sustained, thanks to a 31.3% year-on-year leap in exports in January and February, far higher than expected. Against this backdrop, the consensus GDP growth forecast of 9.5% for 2010 seems feasible, and 11.5% year-on-year growth is expected to be posted in the first quarter.

ECONOMIC OUTLOOK

Emerging economies

Although the latest economic statistics are better than expected and, in some cases, are close to levels corresponding to a state of economic overheating, we believe that signs of a slowdown are already visible. The PMI indicator continues its downward trend, to 52 in February. The index is still at a level that indicates expansion, but the employment and new orders components are weak. Real estate transaction volumes seem to be correcting the excesses of the preceding months.

PMI China: still growing, but less vigorously



Inflation is rapidly returning to a rate of 2.7% year on year, led mainly by agricultural products. Stripping out food, growth is only 1% year on year, exclusively due to the explosion in real estate prices. However, labour shortages are becoming visible in the coastal regions, and 80% of businesses in Guangdong are under-staffed. Wages are starting to rise. At the monetary level, new lending remains sustained and continues to generously fuel monetary conditions.

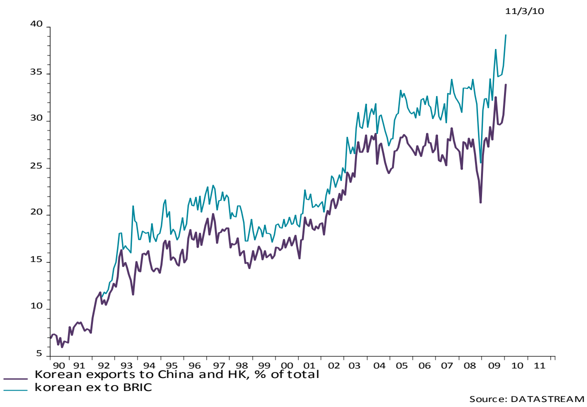
Despite administrative measures, the level of lending and the money supply remain excessive. This is exacerbating inflation risks and increasing the need to pursue restrictive measures: stricter lending quotas, higher reserve ratios and interest rate hikes. Rising wage rates could force the authorities to allow the yuan to appreciate. The last meeting of the National People's Congress (NPC) suggests a change in priority by the authorities toward more stable and balanced growth. The growth of residential investment, the development of rural areas and urbanization are priorities for the government. Private consumption is also a pillar of growth, and the government plans to raise wages and maintain subsidies for car purchases.

The data concerning real estate prices is rather contradictory. An analysis of transactions shows a rise in selling prices of 24.2% year on year, which can be considered as overheating, requiring urgent measures. The official index of real estate prices, on the other hand, suggests growth of "only" 10.7%. Other anecdotal statistics even point to an incipient fall in prices, in the "luxury" segment, in response to the numerous administrative measures. Real estate has become a priority political issue given that 85% of the urban population is discontented with the high prices, which are making home ownership impossible for first-time buyers. On the other hand, real estate investment must take over from infrastructure as a pillar of growth. A fall in construction would be catastrophic for the financial balance of local governments, which derive most of their revenues from the sector, but also for the solidity of the banking system.

The cyclical indicators for Taiwan still show firm growth in industrial output and exports, which in absolute terms are close to the historic highs of 2008. GDP grew 9.2% in the fourth quarter, its fastest pace since 2004. Growth is set to continue over the coming months thanks to good prospects for the technology sector and the firmness of demand in mainland China. The latest PMI survey saw a further rise to 62.5, sustained by growth in new orders and a very marked improvement in hiring.

In South Korea, industrial output is still growing strongly. The inventory cycle remains buoyant, while investment and exports rebounded sharply. Against this backdrop, business sentiment reached its highest level in seven years, while consumer confidence remains at a high level.

South Korea: the main beneficiary among the emerging economies



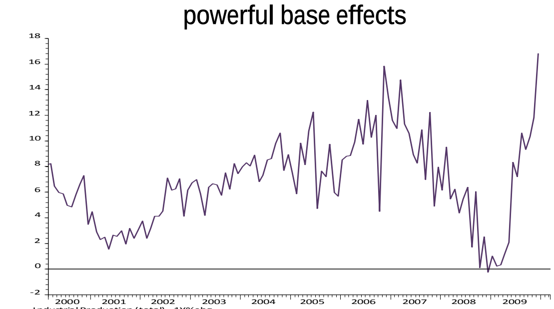
ECONOMIC OUTLOOK

Emerging economies

The good economic outlook for China should help, to the extent that exports to China account for more than 25% of total South Korean exports, compared with less than 10% for the United States. Samsung Electronics, for example, generates over 30% of its revenues in China. The Bank of Korea is expected to leave its key interest rates unchanged at 2% for the coming months due to political pressures and uncertainties regarding the robustness of the global recovery. By putting off the normalization of monetary policy at a time when the economy is not far from operating at full capacity, inflation risks could be exacerbated.

The Indian government has reasserted its commitment to reduce the fiscal deficit, greatly increased by the impact of the global economic crisis. The new budget forecasts a deficit falling to 5.5% of GDP in 2010/11 on the heels of a 6.7% deficit in 2009/10. In addition to a gradual reduction in the budget deficit, the government has revived its privatization programme and committed itself to a medium-term plan to contain public debt. The change in political strategy toward "management of the economic recovery" (fiscal adjustment and balanced withdrawal of monetary stimulus measures) should contribute to a rebound in the economy. Following explosive growth in the third quarter, moderate GDP growth of 6% year on year was posted in the last quarter of 2009. This decline is mainly due to a drop in agricultural output, affected by the extremely low level of rainfall last year, and a reduction in fiscal stimuli. However, the growth of industrial output in December (up 16.8% year on year) and an acceleration in capital spending suggest that growth should be firm in 2010. Furthermore, inflation should peak in the coming quarters. As it stands, while food inflation has started to slow down (17.8% year on year), non-food inflation (13.8%) continues to increase. We expect an initial rise in the key rates and a further increase in bank reserve ratio in April.

India: industrial output posts record growth… due to powerful base effects



The economic indicators for Brazil point to robust growth but also indicate an inflationary trend that is becoming incompatible with the current level of key interest rates. Inflation stood at 4.8% year on year in February, above its 4.5% target. Noting that liquidity conditions in the banking system had returned to normal and faced with strong credit growth, the central bank announced an increase in the level of reserves on bank deposits in February. However, barring a fiscal adjustment, it will probably start raising its key rates very soon. A total 300 bp rise is apparently expected for 2010. As regards activity, the outlook is still favourable, with 16% year-on-year growth in industrial output in January, representing a 1% month-on-month gain. Also, the indicators concerning domestic demand still point to growth exceeding the long-term trend, suggesting that industrial output will maintain its momentum. Whereas the capacity utilization rate for industry as a whole has not yet reached its historic high, the operating ratio in sectors related to domestic demand is already peaking. Investment is responding well to the narrowing of the output gap and, despite the disappointing results concerning capital formation in January, the overall outlook for investment remains sound.

The situation of the Russian economy is still contrasting. At the end of 2009, growth surprised on the upside and the PMI Index finally broke above the 50 level in January, proving that the economic recovery was starting to get under way. However, although the situation is greatly improving, signs of fragility persist. The Manufacturing PMI fell from 50.8 to 50.2 in February, due to a contraction of the new orders, output and employment components. However, this indicator is still in growth territory and the ratio of new orders to inventories seems to point to growth in industrial output (albeit probably limited) in the coming months. Also, surveys show that the capacity utilization rate is up slightly (57% in February versus 55% one month earlier) and that business sentiment is improving but still in negative territory. Moreover, factors such as the winding-down of fiscal stimulus packages, sluggish investment and subdued consumer demand are likely to limit inflationary pressures. Accordingly, the consumer price index saw a further fall in January (from 9.2% to 8.2%), giving the monetary authorities the opportunity to continue lowering their key rates.

BOND MARKETS

Government Bonds

Monetary tightening: please wait a bit longer!

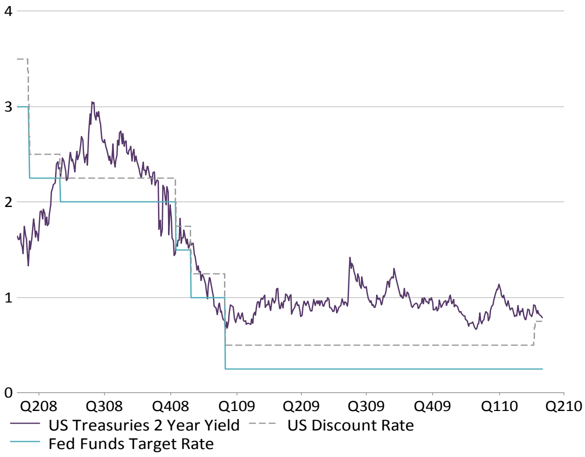
Like last month, there have been no major changes in the fundamentals. There is undeniably a cyclical acceleration of growth, but such pace is likely to be short-lived. At the same time, while headline inflation is picking up, core inflation is still very low. This is a key factor which will continue to put downward pressure on yields. Against this backdrop, central banks are for the time being not ready to tighten monetary policy via interest-rate hikes, but some of their actions to increase liquidity will be coming to an end, as will their purchases of debt securities. Recent events confirm these trends.

In the United States the Fed raised the discount rate while reasserting its intention to keep rates low for an extended period and detailing the various tools at its disposal to withdraw liquidity and reduce the size of its balance sheet when the right time comes. The complex problem of the exit from accommodative monetary policies is far from settled, but it can already be predicted that the impact on the yield curve will be felt when other measures, such as a hike in the key rate (by the various methods anticipated by the Fed) or sales of securities, come closer or are put in place. In both cases, we foresee no imminent action, but rather a preparation of the ground later in the year for the first point and the status quo for the second.

In the euro zone, the ECB continues the gradual unwinding of its extraordinary liquidity measures, although without touching its key interest rates. Bond markets can therefore not worry about a "conventional" tightening of monetary policy, which is not foreseeable for quite some time. On the other hand, they will still have to cope with the budget problems faced by certain Member States. Of course, the significant new measures taken by the Greek government help address the problem to a certain extent, but this will not prevent persisting nervousness on sovereign spreads.

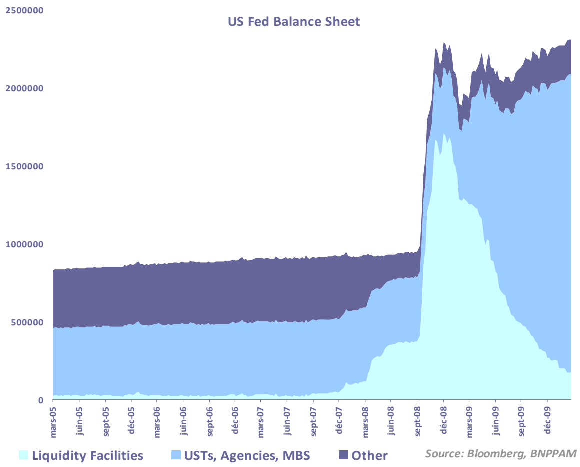
We maintain a neutral stance on government bonds.

No impact on front yields after the rise in the discount rate



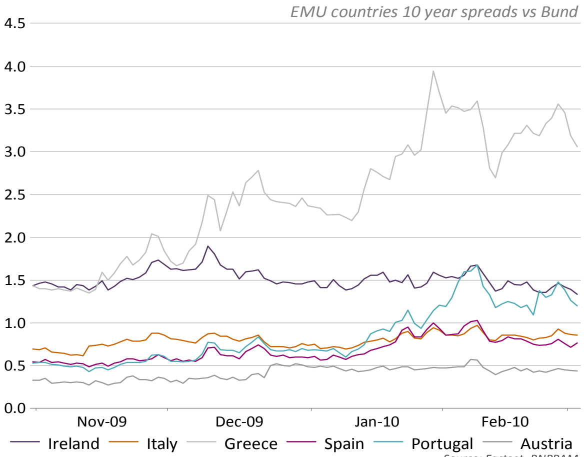
Source: Factset, BNPPAM

The Fed will not carry out securities sales



Source: Bloomberg, BNPPAM

Nervousness will persist regarding sovereign spreads



Source: Factset, BNPPAM

BOND MARKETS

IG and HY credit

We maintain a moderately overweight stance

Following the consolidation phase mentioned last month, the credit market improved again. On the whole, **the fundamentals have not experienced any major changes**, and the underlying trends remain, with improving earnings and deleveraging continuing to provide support for credit.

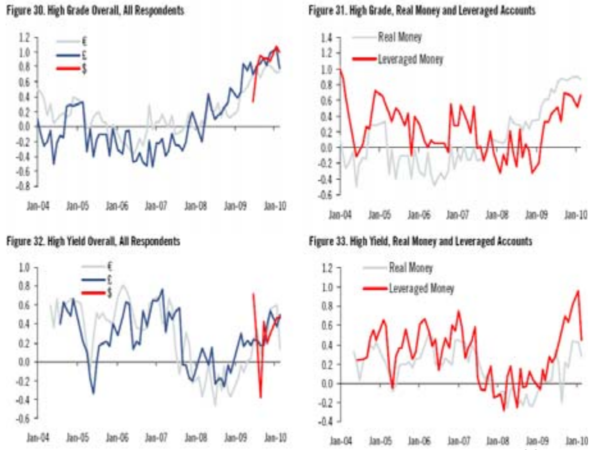
For the time being the market should still attract investors looking for yield performance, a search that is becoming increasingly difficult at current spread levels and could in the near future boost demand for less well rated paper, but which is also, at least in Europe, increasing discrimination between the various issuers, especially in the primary market. In other words, the era of "easy" money has come to an end, and the overall market valuation does not justify being massively overweight.

The economic recovery should be sufficient to support the market, with sluggish growth which represents a good compromise between profits and deleveraging. However, there are still many doubts regarding its medium-term sustainability following the current phase of acceleration, and any accident, especially concerning sovereign risk, would of course be negative both for credit and for all other risky asset classes.

From a technical viewpoint, **flows into High Yield funds remain less buoyant** than at the end of 2009, which is not a very favourable trend. However, we think that, for the time being, barring significant exogenous shocks, this asset class is unlikely to be abandoned. As regards investors' positions, which are another source of worry, the situation has not improved for Investment Grade, but has at least eased for High Yield, especially on the more speculative positions.

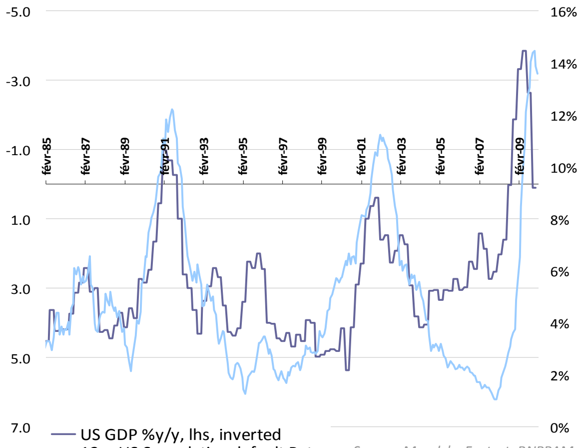
Given our tactical scenario of risk appetite and the appeal of carry trading, **we remain slightly overweight in the credit market.** The absolute potential gain, especially for Investment Grade debt, is rather limited, especially compared with last year's performance, but it seems too soon to punt on a turnaround.

Reduction of long positions in HY but not in IG



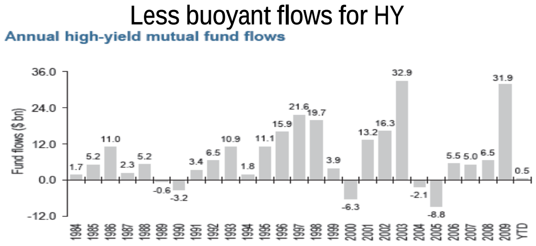
Source: Citigroup

Economic recovery positive for default rates

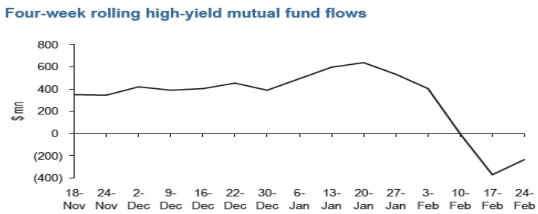


Source: Moody's, Factset, BNPPAM

Less buoyant flows for HY



Sources: J.P. Morgan; AMG Data Services



CURRENCY MARKET

We maintain our preference to growth currencies against the euro and the yen

The euro is struggling to rebound. Despite the renewed appetite for risky assets, the European currency is struggling to show signs of a rebound. Speculators still have a very negative positioning, and although the gradual dispersion of fears about the situation in Greece could enable EUR/USD to bounce back somewhat, the trend for 2010 is still one of **weakening of the euro against the dollar** due to a less favourable positioning in the economic cycle.

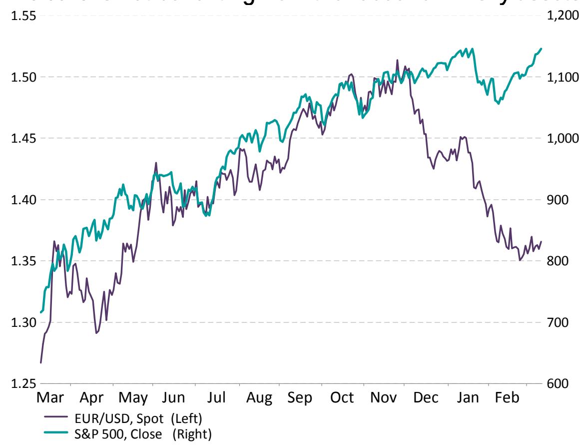
The pound remains under pressure. Negative investor sentiment toward the UK currency could persist in a context of fears surrounding sovereign debt and, more recently, uncertainties regarding the coming elections, where the latest opinion polls have shown a growing risk of a hung parliament (i.e. one with no stable majority). However, **the pound's correction relative to the euro has been sharper than expected given the respective economic fundamentals** and is probably partly technical in origin. We are slightly negative on the pound relative to the dollar, but positive against the euro.

Expected gradual weakening of the yen. The yen's strength against the dollar remains a surprise despite investors' relatively consensual view that the **yen should weaken against the dollar as the rate differential widens.** This is especially so since the Japanese authorities would no doubt positively welcome a fall in the yen as this would enable Japanese firms to regain competitiveness in export markets.

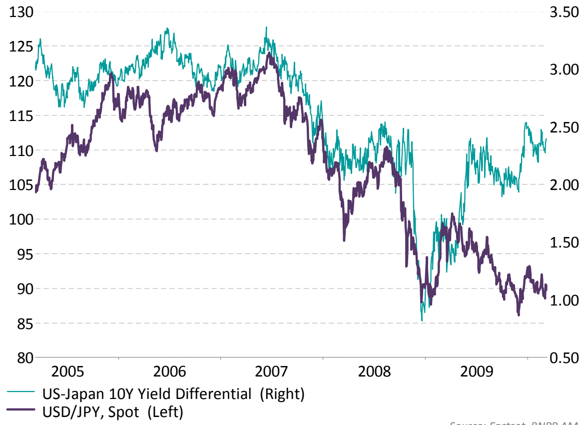
Growth currencies still firm. We maintain our preference for growth currencies, especially - since their respective economies remain the most buoyant - the Australian and Canadian dollars. **Exposure to commodities** is of course still an important factor of support, as is, for the Australian dollar, closeness to China.

However, the risk in coming months is that the economic statistics will find it hard to surprise on the upside in Australia, limiting the appreciation potential of the Australian currency.

The euro is not benefiting from the rebound in risky assets



USD/JPY remains close to its lows



Source: Factset, BNPP AM

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FX Rate Forecast Summary (Major Currencies)

End of Period		2009	04-Mar-10	1Q 2010 Min	1Q 2010 Max	2Q 2010 Min	2Q 2010 Max	3Q 2010 Min	3Q 2010 Max	4Q 2010 Min	4Q 2010 Max
USD Block	EUR / USD	1.43	1.3690	1.35	1.40	1.40	1.45	1.37	1.42	1.35	1.40
	USD / JPY	93	88.53	88	93	95	100	95	100	100	105
	USD / CAD	1.05	1.0289	1.05	1.10	1.10	1.15	1.10	1.15	1.10	1.15
	AUD / USD	0.90	0.9059	0.87	0.92	0.87	0.92	0.85	0.90	0.85	0.90
	GBP / USD	1.61	1.5066	1.49	1.58	1.58	1.68	1.59	1.68	1.56	1.66
	USD / CHF	1.03	1.0687	1.07	1.11	1.03	1.07	1.05	1.10	1.07	1.11
EUR Block	EUR / JPY	134	121.20	121	128	135	143	133	140	138	144
	EUR / GBP	0.89	0.9087	0.87	0.92	0.85	0.90	0.83	0.88	0.83	0.88
	EUR / CHF	1.48	1.4630	1.47	1.53	1.47	1.53	1.47	1.53	1.47	1.53

Source: BNPP AM as of 4/3/2010

EQUITY MARKETS

Developed markets

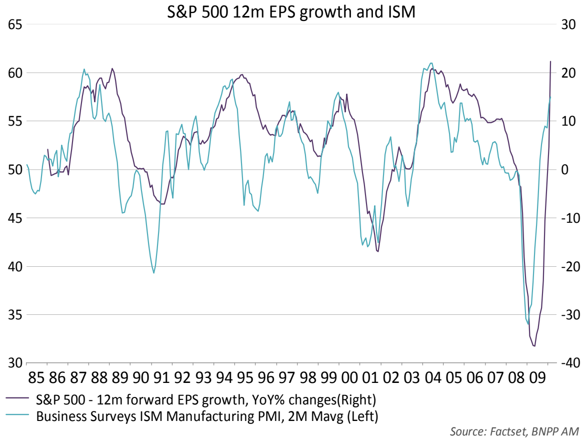
Slight overweight position maintained against a backdrop of economic recovery, earnings growth and still plentiful liquidity

Macroeconomic and monetary environment still favourable in the short term. Some of the sources of worry that had triggered the correction in January have diminished in recent weeks, especially those concerning banking regulation and monetary tightening in emerging countries (China in particular), which could have jeopardized the robustness of the growth to be expected in those regions that are driving the current global economic recovery. Accordingly, the MSCI World Index (expressed in dollars) rebounded by 7.5% (closing level of March 9) following a 9.5% decline between January 14 and the low of February 8. Other fears persist, however, such as the sustainability of the economic recovery and the "Greek crisis", along with its risk of contagion. While the default of a European State on its debt seems to us a highly unlikely outcome, excessive fiscal deficits nevertheless represent a real problem, and developed countries will not be able to shun the need to consolidate their public finances over the coming years.

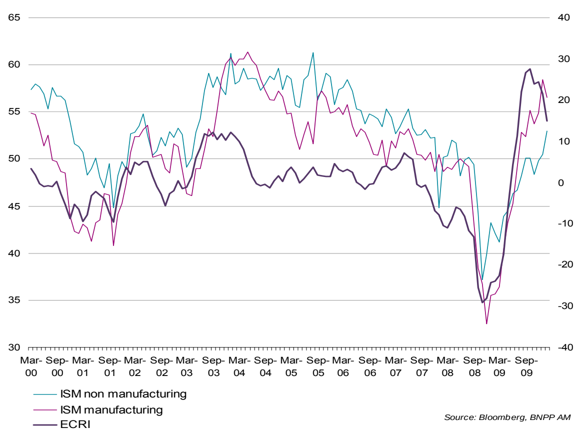
On the economic front, leading economic indicators continue to improve, even though some of them show signs of slackening (see second graph). We remain confident regarding the short-term outlook, in particular with good first-half figures expected in the United States thanks to the strong pickup in the industrial cycle. The global economy continues to accelerate and should reach a growth rate exceeding its potential in the first two quarters of the year before returning to a more moderate growth rate. This environment remains favourable to equity markets so long as the prospect of monetary tightening is remote, which is our scenario given the lack of inflationary pressure (in particular due to high unemployment) and low growth. Moreover, the fact that the central banks (the Fed and ECB in particular) are starting to gradually put in place their "exit strategy" from unconventional measures is a sign that they think the situation in the banking sector has improved.

On the other hand, we are less optimistic for the second half of the year. The economic slowdown in the advanced economies, due to the gradual termination of temporary factors of support (e.g. inventory rebuilding), and the prospect of the inevitable consolidation of public finances, will - far more than the start of monetary normalization - be major risks for stock markets.

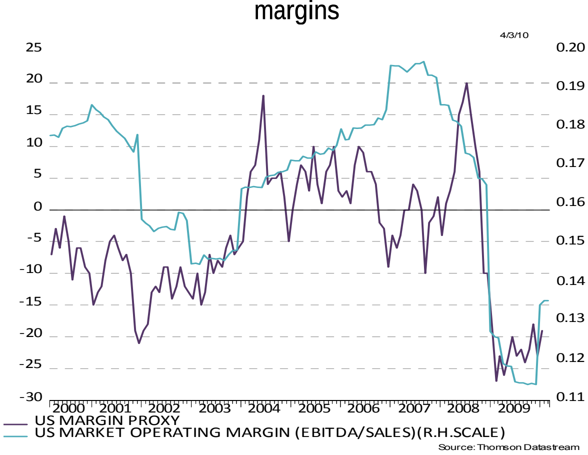
Sharp rebound in economic growth and earnings



Continuing improvement in leading indicators, but watch out for signs of slackening



Recovery in corporate margins



EQUITY MARKETS

Developed markets

Sharp profit rebound in 2010 with an ongoing recovery in margins. EPS projections have continued to be revised upward in the wake of good earnings reports for the fourth quarter of 2009, showing a high proportion of positive surprises concerning both profits and revenues. Earnings growth is therefore no longer being driven solely by cost cutting but also by a rebound in sales thanks to improving economic conditions. Further upside potential is not yet completely exhausted in view of ongoing restructuring and wage moderation, although companies seem to have limited pricing power. The cyclical pickup under way, the recovery in margins and a favourable base effect should result in a sharp increase in profits this year. Analysts' expectations of 30% average EPS growth for the S&P500 in 2010 accordingly seem thoroughly realistic.

On the other hand, the current bottom-up consensus outlook for 2011 seems optimistic, and downward revisions toward the end of this year are likely, once the cyclical rebound is over. Question marks regarding the sustainability and robustness of economic growth, the continuation of deleveraging and the need to put public finances back on a sound footing, which will probably lead to increased taxation, are all factors that will weigh on companies' sales and could jeopardize the current projection of 20% earnings growth expected in 2011.

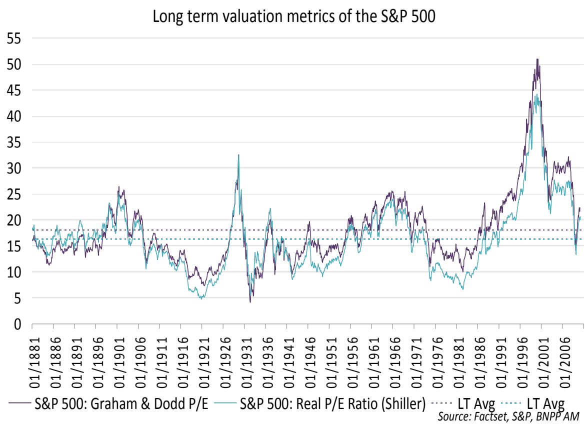
Valuations, which are reasonable, are not a market driver at present. In absolute terms, the traditional equity market valuation ratios remain, as in recent months, close to their long-run average, slightly above it when adjusted for the cyclicality of earnings (Shiller P/E, Graham & Dodd), or slightly lower (12-month forward P/E, P/BV). Relative to other asset classes, equities appear far more attractive. On the whole, these valuation levels are not an upward driver for markets, although they are not a penalizing factor.

Sales, margins and EPS: analyst consensus forecasts

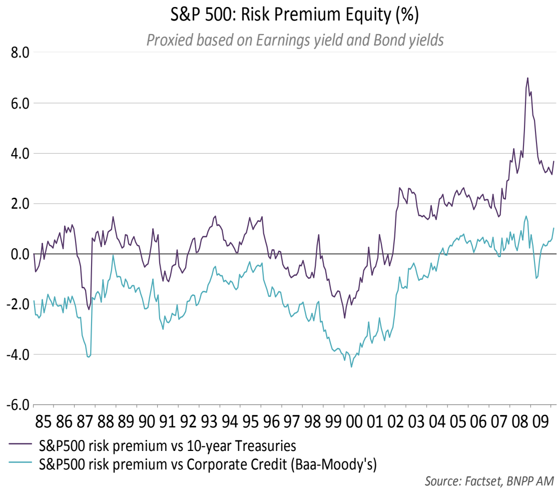
	Sales growth (%)			
	2009e	2010e	2011e	2012e
S&P 500	-8.0	6.9	6.6	5.2
S&P500 ex. Financials	-10.8	8.0	6.8	5.6
	Net income growth (%)			
	2009e	2010e	2011e	2012e
S&P 500	-21.6	31.0	19.3	12.6
S&P500 ex. Financials	-22.0	22.3	14.6	10.8
	Margins (Net income/Sales), % - Ex. Financials			
	2009e	2010e	2011e	2012e
S&P500 ex. Financials	7.2	8.1	8.7	9.2
Difference, pb		0.9	0.6	0.4

Source: IBES, Datastream, BNPP AM

Reasonable valuations



Equity risk premiums



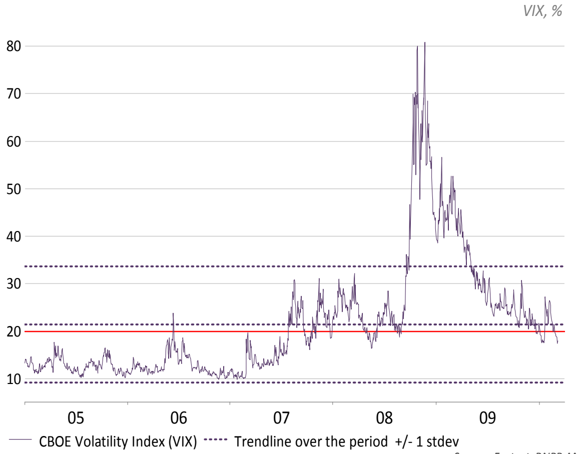
EQUITY MARKETS

Developed markets

Technical factors and market sentiment. Despite the market rebound since February 8, market indices have not yet moved back into over-bought territory, but are now very close to it. The sentiment indicators deliver more ambiguous messages for the near term: investor sentiment ("Bull/Bear Advisors") has recovered strongly but without regaining its recent peak of optimism; the VIX, on the other hand, is again below 20 (on March 9), i.e. a level of complacency which calls for slightly more caution in the near term. Finally, the longer-term indicators, such as moving averages, still point to an upward trend, albeit less vigorous.

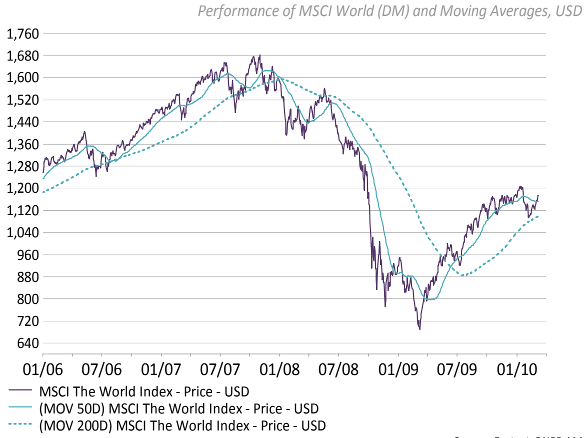
To conclude, we remain positive on developed equity markets in the short term based on the economic recovery and current earnings, reasonable valuations in absolute and relative terms, and the fact that there will be no monetary tightening by major central banks (the Fed in particular) until early 2011. This balance between moderate growth and accommodative monetary conditions is fragile, however, and any unpleasant surprises concerning the scale of the economic recovery and/or announcements of the gradual withdrawal of unconventional monetary measures so as to drain off excess liquidity are likely to create worries for investors and, as a spin-off effect, volatility for stock market indices.

VIX: decline in risk aversion; watch out for complacency in the short term



Source: Factset, BNPP AM

MSCI World: upward trend



Source: Factset, BNPP AM

EQUITY MARKETS

Developed markets

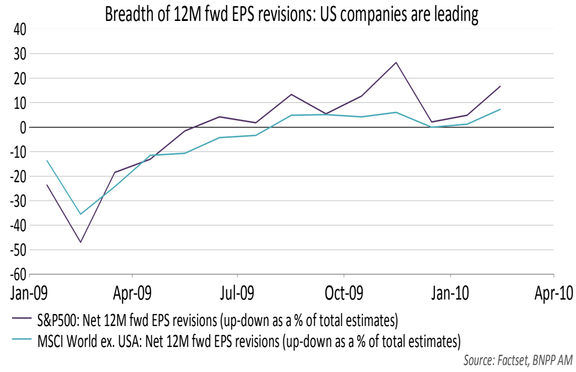
We still prefer the United States and the United Kingdom; euro zone reduced to underweight

We still prefer the United States and the United Kingdom in our geographic allocation within the developed countries, but for different reasons. The US equity market continues to enjoy a more vigorous cyclical economic rebound than the average of the other major developed countries, due to a fiscal and monetary environment that is still very favourable and should remain so over the coming months. The profit revision momentum, very favourable in both absolute and relative terms, should therefore continue to be highly supportive despite the recent firming of the dollar. The United Kingdom is still weighed down by the lag in the economic cycle and uncertainties regarding the outcome of the next elections and the economic programme that will be adopted to solve current structural challenges. However, this market should continue to benefit from the extremely expansive monetary policy of the BoE – to which it is very sensitive – and from the sterling exchange rate and its substantial impact on the earnings of listed companies.

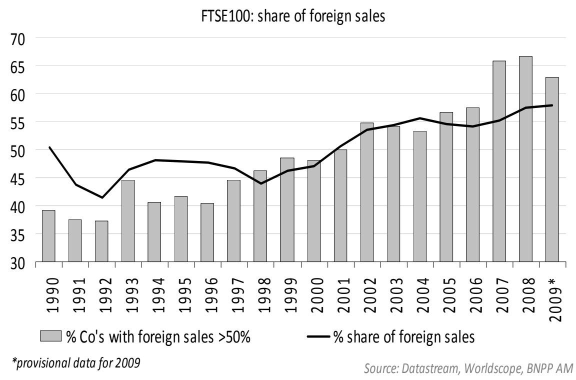
We maintain our neutral weighting on Japan, whose fundamentals remain poor despite a cyclical improvement due to its exposure to high-growth Asian countries. Deflationary pressure and persistent yen strength are weighing on earnings prospects. However, in the near term earnings revision momentum remains favourable and valuation levels are still attractive, which continues to justify a neutral weighting on this market. We are reducing our underweighting in the Canadian market in the wake of the commodity rebound, although - because of the very firm Canadian dollar and a high relative valuation - without reaching neutral.

The lowering of our euro zone weighting from overweight to underweight is the most significant change we have made this month. We consider that, following the recent catch-up by this market, fears concerning fiscal tightening, while the recovery is still subdued, are likely to penalize the euro-zone bourses again in relative terms. Accordingly, and despite the support factors provided by valuations and the recent weakening of the euro, we are taking advantage of the latest rebound to substantially reduce our exposure to this market. We also remain very cautious regarding the Swiss market - despite a remarkable cyclical improvement - due to the strength of the Swiss franc against the euro, the defensive nature of the market, which is penalizing in the short term, and lastly the uncertainties that continue to weigh on the financial sector. We also remain cautious on the Australian market due to the monetary tightening cycle under way, combined with the strength of the Australian dollar and valuation levels that are still not very attractive.

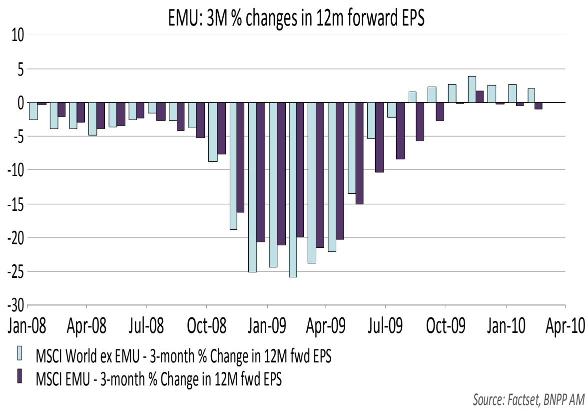
US: favourable breadth of earnings revisions



UK: sales heavily exposed to international trade



Euro zone: earnings revision momentum lower than the global average



EQUITY MARKETS

Emerging markets

The worst is possibly behind us, but consolidation continues

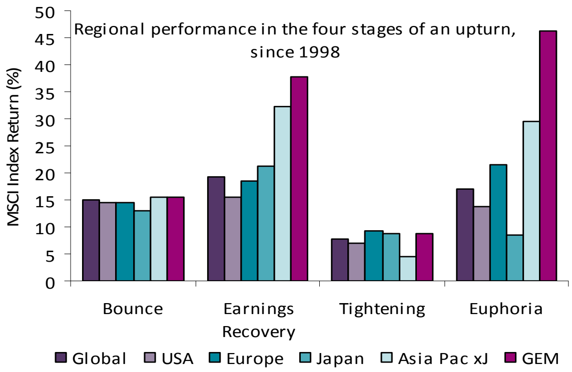
We maintain our preference for developed markets relative to emerging markets based on technical and fundamental considerations, in particular the positioning of the two regions in relation to their economic growth cycle. The very strong outperformance by emerging stock markets in 2009 pleads for a period of consolidation, and high and over-consensual investor optimism is another technical factor prompting caution. As regards the economic cycle, the most recent figures confirm that the growth peak in emerging economies is behind us. Leading indicators continue to turn around, while the phase of monetary policy normalization is already well under way in some major emerging countries. China, India and Brazil have already raised the reserve rates for banks, while Malaysia has just raised its key interest rate in early March, and other countries such as South Korea will do so soon. The relative performance, comparing the two regions, was satisfactory in local currency terms, but more mitigated in US dollar terms, since the greenback fell sharply against emerging currencies.

Historically, emerging markets post their best form in times of earnings pickups, and give up their leadership slightly in times of monetary tightening, picking up again during phases of exuberance. This implies that, over the coming months, emerging-market indices will move at best in line with the developed markets, but with higher risks due to their sensitivity to global liquidity. The phase of monetary normalization has already begun to affect earnings revisions for the leading emerging markets, cases in point being China and India, which in recent months posted only moderate revisions of their 2010/11 earnings.

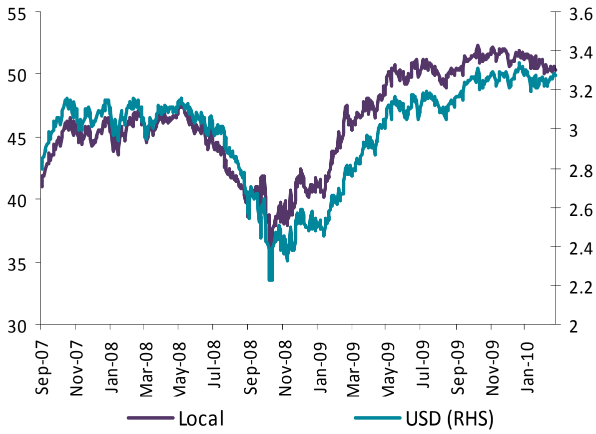
The downside risk for equities in response to monetary tightening is limited, because the inflation we are faced with is of a more cyclical than structural nature, justifying at the very most a normalization of monetary policies. Moreover, the growing importance of domestic consumption (in Brazil and India, and increasingly in China) means that emerging markets are more resilient to external shocks, while offering higher long-term growth potential.

From the technical viewpoint, emerging-market indices have rebounded sharply since mid-February, after being oversold and reaching a major support level. Risk appetite is back again (contraction of spreads and fall in implied volatility) and our trend indicators are again positively biased, as corroborated by the sentiment models, which have likewise become positive since mid-February. The period of consolidation could last a few more months, but the lows were probably already reached in February.

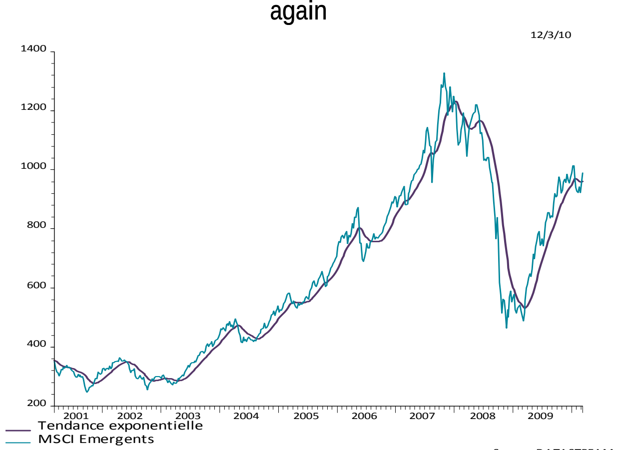
Monetary tightening, more moderate performance



Emerging-market performance relative to developed markets



Emerging-market index: an upward trend again



Source: DATASTREAM

EQUITY MARKETS

Emerging markets

The current phase of consolidation poses no fundamental threat to our medium-term scenario for the emerging markets. Although cyclical indicators are starting to level off, monetary conditions will continue to be very positive and interest rates are likely to remain enduringly low in both emerging and developed economies, which is good for financial assets in general. Furthermore, the improving employment trend and rising private consumption and investment will give the emerging economies a growth potential that is structurally superior to that of the developed economies. This should encourage foreign investment funds to increase their exposure to emerging markets.

The latest economic statistics still point to very strong economic growth in China, in particular with real estate prices on a sharply upward trend and an inflation rate rapidly approaching the targets tolerated by the authorities. This could make the authorities more vigilant and lead them to tighten monetary conditions (which are still very generous) even further, which is of course unfavourable for stock markets.

We are generally sanguine about inflation risks, which are more cyclical than structural. Food products are the main factors fuelling the rise, while the underlying component has increased only very moderately. The latest PMI survey and anecdotal evidence on real estate suggest that the Chinese economy is currently reacting positively to the administrative measures decided by the authorities, and this could rein in inflation expectations. Bank lending will no doubt decline, while remaining at historically high levels.

Following the consolidation phase, Chinese equities are again fairly valued, although earnings revisions have become less favourable. We have become less negative on Chinese equities, and propose merely a marginal underweighting relative to the emerging-market universe. Technically, Chinese equities have rebounded on a very significant support line.

In Taiwan and South Korea, economic activity has rebounded sharply, and the high level of confidence pleads in favour of further growth. Both these economies benefit from their exposure to the global cyclical recovery and from tax cuts. Monetary conditions are still favourable there, with very low interest rate levels. South Korea's valuation remains attractive by comparison with its historical trend. Earnings are still growing strongly in 2010, up 38% according to the most recent forecasts.

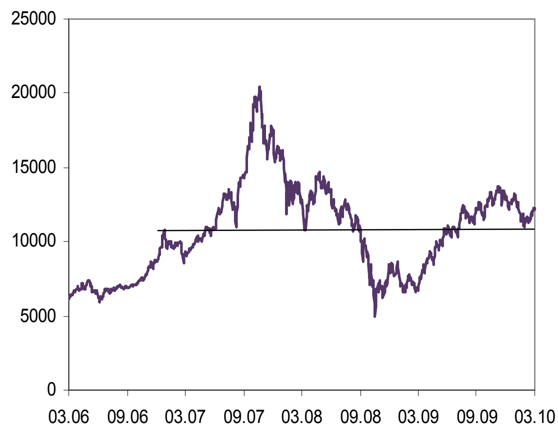
Emerging markets: less favourable EPS revisions for the major markets

	1m % change in earnings estimates		3m % change in earnings estimates	
	Year 1	Year 2	Year 1	Year 2
Country	abs %	abs %	abs %	abs %
Brazil	1	-0.1	2	0.5
China	0.6	0.2	1.2	1.1
India	-0.1	0.9	-0.8	1.1
Korea	1.7	1.2	0.9	3.2
Mexico	-0.4	2.2	0.8	1.7
Russia	4.2	5.3	17.6	22.3
SouthAfrica	0.3	1.3	0	2.1
Taiwan	6.3	3.5	15.5	9.1

China: valuation once again attractive

Source: DATASTREAM

Chinese HSCEI Index: rebound on major support

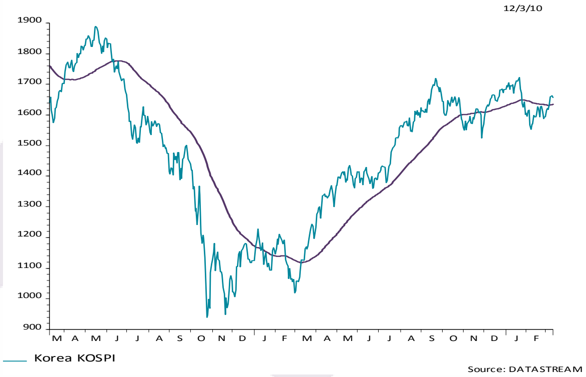


EQUITY MARKETS

Emerging markets

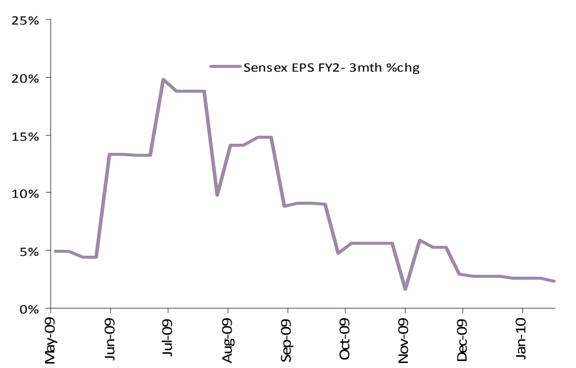
The Taiwanese market underperformed heavily in recent months due to a rise in risk aversion, despite significant earnings revisions. We maintain our overweight stance on the market due to structural considerations. Taiwan is benefiting from progress in its economic relations with China, which increases Taiwanese firms' exposure to the Chinese consumer. The improved outlook for the semiconductor cycle should also benefit the market. Finally, the Taiwanese stock market has heavily underperformed the emerging-market universe and is currently forming a base.

South Korea: index on an uptrend



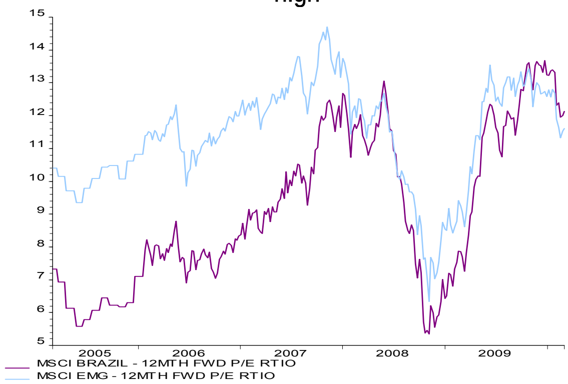
The good outlook for the Indian economy should continue to support the equity market. Moreover, the market welcomed the announcement of the budget for fiscal year 2011, which plans to reduce the fiscal deficit and increase the funds dedicated to infrastructure development. Except for that, the Indian market has not been driven by any major surprises. Corporate earnings growth in the last quarter of 2010 was in line with expectations, and the earnings revision index remains stable. We recommend a neutral stance on this market.

India: the earnings revision index is stable but positive



Worries about monetary tightening in China, which is Brazil's leading trade partner, caused the Bovespa Index to fall in January. However, it seems that these worries were overestimated by the market, which has practically regained its start-of-year level, i.e. only 10% below its historical high reached in May 2008. The trend indicators are still favourable, the economic recovery is well anchored, and earnings should grow 22% in 2010. We are therefore confident regarding Brazil's medium-term prospects, but we prefer to keep a slightly negative position, given the risks of correction in the near future following potential interest-rate hikes.

Brazil: valuations are relatively high



Russian equities have resumed their positive trend since the end of February, supported by good prospects for commodities, which have led analysts to upgrade their profit projections for Russian firms. Also, the 17% appreciation of the rouble in the past year is positive for the banks, which can cover their foreign currency debts more easily. Moreover, although Russian equity valuations are now three times higher than their low of October 2008, they remain attractive. We recommend a neutral stance on this market.

We continue to reduce our negative play on South Africa. Recent earnings revisions due to a strong improvement in the economy have made valuations far more attractive. Moreover, the stabilization of the currency should provide support for commodity-exporting firms.

Turkey has been through a very bad patch in recent weeks. This is because of recent political tensions, which could make investors adopt a more cautious attitude to this country. Moreover, negotiations with the IMF have been suspended once again. We recommend a slightly negative weighting.

ALTERNATIVE STRATEGIES

Commodities

We maintain our positive weighting on commodities

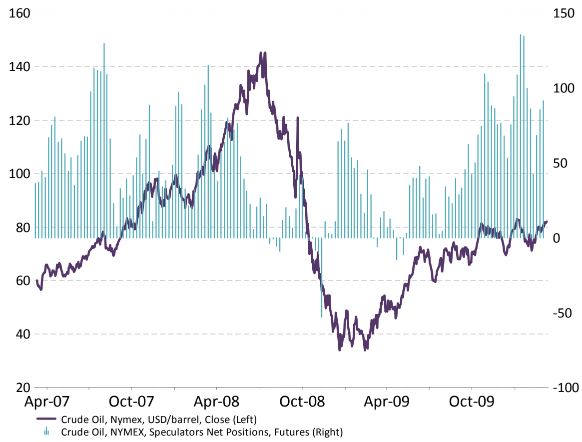
The further rebound in crude prices, which have regained more than $10 in a month, is no doubt a sign that market participants are uncomfortable with an oil price at $70 when a pickup in demand seems imminent. Although crude stocks have stopped declining in recent weeks, other indicators are improving. For example, US oil imports have returned to levels closer to their historical average, and refiners have started to increase their level of activity in anticipation of an increase in demand for petroleum products. In this situation, we have kept **our positive weighting on oil**, since the rebound in demand should continue over the coming months. However, beyond $80, profit taking could limit short-term gains.

We have also **kept a positive weighting** on base metals. As with petroleum products, the first signs of a pickup in physical demand in the developed economies seem to be materializing. Since demand from the emerging countries should remain firm, the physical market equilibrium could change, allowing metal stocks to begin a declining trend. However, some of these expectations are already factored into prices and there is a risk of a correction in several months' time.

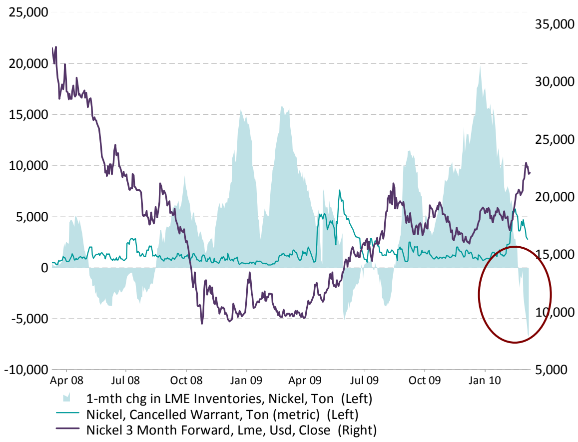
Gold and precious metals have also benefited from the revival of risk appetite. Although they are less exposed to the economic cycle, precious metals should profit from the rebound in industrial demand (mainly from the semiconductor industry and the automotive sector) and from the gradual pickup in jewellery-related consumption, while investment-related demand should remain firm in an environment of very low interest rates and plentiful liquidity. **We remain positive on gold and precious metals.**

We **maintain light exposure to** agricultural commodities. Although the prospects for an upward movement are limited in the near future in a context of plentiful harvests and weak export demand, at current price levels the downside risk is limited too. This is especially true since the pause in the dollar's appreciation and rising energy prices are factors of support.

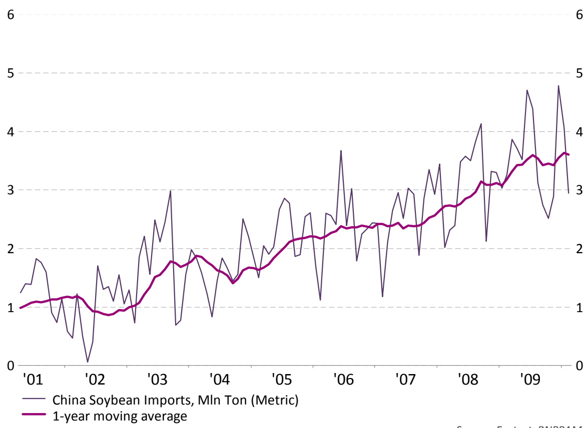
Oil: speculators are increasing their positions



Nickel: stocks are starting to decline



Soybeans: Chinese imports are stagnating



Source: Factset, BNPPAM

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