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QIS Risk Premia Outlook

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Index

1 SUMMARY

2 TRADE OF THE MONTH:
FX LATAM CARRY

3 FX RISK PREMIA

FX carry – Global
FX carry – LatAm
FX value – Global
FX value – LatAm
FX trend – Global
FX trend – LatAm

4 BOND AND CREDIT
RISK PREMIA

Bond trend
Credit trend
Credit carry

5 ASSET ALLOCATOR

6 APPENDIX

QIS Publication Monitor

Risk Premia strategies

- [Risk Premia: Keep calm and carry on!](#) – 10 June 2025
- [Risk Premia: After Liberation Day](#) – 23 April 2025
- [Risk Premia Outlook](#) – 11 March 2025

QIS Thematics

- [QIS Thematics: Sell in May?](#) – 8 May 2025
- [QIS Thematics: Greed and fear](#) – 18 March 2025
- [QIS Thematic - Welcome to Trump 2.0](#) – 11 November 2024
- [QIS Thematic: Spooky Earnings](#) – 29 October 2024
- [QIS Thematics: Defence is the best offence](#) – 14 October 2024
- [QIS Thematics: Welcome to the Global Easing Cycle](#) – 4 September 2024

Macro tactical ideas

- [QIS Tactical: De-dollarisation](#) – 13 May 2025
- [QIS Tactical: European Exceptionalism](#) – 31 March 2025

Podcasts

- [Podcast: Thematics - Defense Moment\(um\)](#) – 21 May 2025
- [Podcast: Risk Premia - After Liberation Day](#) – 24 April 2025
- [Podcast: Risk Premia](#) – 24 March 2025
- [QIS Thematic – Podcast: Risk Premia Outlook for 2025 \(Feb\)](#) – 27 February 2025
- [QIS Thematic - Podcast: Risk Premia Outlook for 2025](#) – 29 Jan 2025

1. Summary

Keep calm and carry on! (i)

- **US economy in expansion phase:** The BBVA US Macro Indicator was highlighting elevated recession risks at the start of 2Q, but the latest reading for July suggests that the US economy has entered the expansion phase. This was further evidenced during the most recent earnings season, with 80% of US corporates beating estimates. Our optimistic reading is in contrast with the latest jobs report, which showed muted job creation below market expectations. Nonetheless, the PMI reading and sticky wage data suggest supply rather than demand weakness in labour markets.
- **Loose getting looser:** Fed Chair Jerome Powell's recent Jackson Hole speech has driven market expectations that the Fed will restart its cutting cycle in September. Furthermore, the fiscal stimulus facing the US economy from the "One Big Beautiful Bill" – which consensus expects will boost US GDP by up to 0.5% – and potentially tariff-funded fiscal cheques is likely to spur a continuation of risk-on sentiment. Cross-asset volatility has been on a downtrend since peak levels in April. We believe supportive fiscal policy combined with less restrictive monetary policy will keep financial conditions in check in the near term.
- **Keep calm and FX carry on:** The current environment of loose financial conditions and an expansionary growth regime has historically been favourable for FX carry strategies. The best time to enter these strategies is when emerging from a recession. We initiated our positive view on the FX LatAm carry strategy back in April when we were just coming out of the trough in risky assets. Since then, the FX LatAm carry strategy has delivered the best returns across our suite of risk premia strategies.
- **Other sources of carry:** In this note, we investigate the outlook for the traditional and most popular carry strategies across asset classes. In our analysis of cross carry comparisons, the FX carry strategy continues to stand out. The commodity carry strategy ranks as the second best, although its performance in the post-COVID world of higher inflation has been challenging, making us cautious. The credit carry ranks as the worst, given already tight spreads currently.

Keep calm and carry on! (ii)

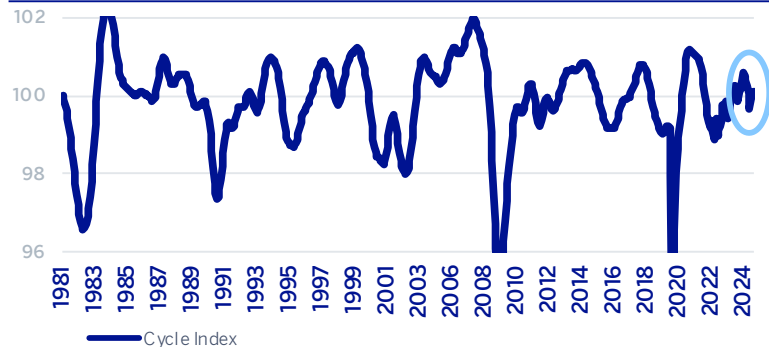
- **Worst is over for trend strategies:** The performance of trend strategies has stabilised recently. Cross-asset trend strategies have had a difficult period since 2Q24, but their performance seemed to have stabilised in recent months. As the initial bout of volatility around the new US government stabilises, we believe trend strategies are likely to make a comeback, possibly next year.
- **QIS continues to provide a source of uncorrelated alpha:** The average pairwise correlation between risk-premia strategies seemed to have troughed recently but remains near record lows. We have continued to highlight the diversification potential of using QIS risk premia in investor portfolios. In a world of positive bond/equity correlation on the way down, we believe QIS strategies continue to offer a good source of diversification and alpha for portfolios.
- **Trade of the month: FX LatAm carry** – in multiple publications this year ([Risk Premia: After Liberation Day](#) – 23 April 2025, and [Risk Premia: Keep calm and carry on!](#) – 10 June 2025), we highlighted our preference for the BBVA FX LatAm carry strategy. We saw this as a contrarian trade when we initiated it in April, given market volatility around the Liberation Day event. Since our publication, the popularity of EM carry trades has increased with the continued depreciation of the USD. We see the current environment of loose financial conditions and a stable global growth outlook as ripe for this trade.
- **EM FX has room to run against non-USD FX:** The BRL and MXN have appreciated by 14.1% and 9.4%, respectively, against the USD since the start of the year, while the performance of LatAm currencies vs. our basket of lowest-yielding currencies shows that the MXN has depreciated by 0.3% and the BRL by just 4.6% year to date. The bearish view on the USD has become well documented, as has consensus as a result, and we see room for the FX carry trade to play out within non-USD currencies.

US economy in expansion phase

Tariff threat behind us: US economic sentiment has rebounded from April lows, which gives us confidence that the US equity rally we have seen thus far has had support from improving fundamentals. The US economy went through a soft patch at the start of the year on the back of tariff and inflation uncertainty, but the weakness seemed to have troughed according to our BBVA US Macro Cycle Indicator. Our indicator was highlighting elevated recession risk at the start of 2Q, although the latest reading for the month of July suggests that the economy recently entered the expansion phase. This was further evidenced during the latest earnings season, with 80% of US corporates beating estimates. Our optimistic reading is in contrast with the latest jobs report, which showed muted job creation below market expectations. Nonetheless, the PMI reading and sticky wage data suggest supply rather than demand weakness in labour markets.

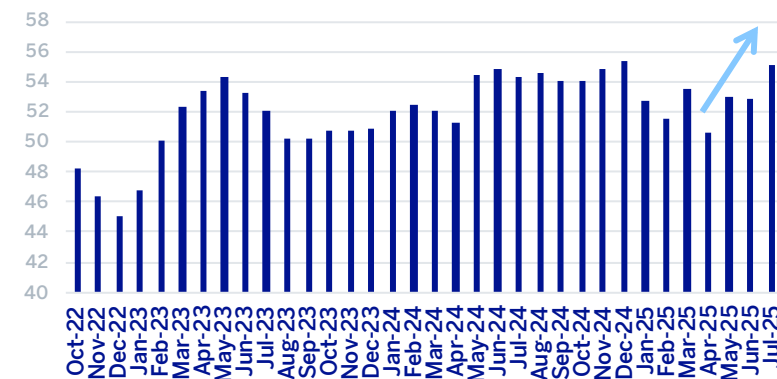
BBVA US MACRO CYCLE INDICATOR (BBRIMAUS)

Source: Bloomberg and BBVA Global Markets Strategy



US COMPOSITE PMI

Source: Bloomberg and BBVA Global Markets Strategy



BBVA Financial Conditions Indicator remains loose

Loose getting looser: Fed Chair Jerome Powell's recent Jackson Hole speech has driven market expectations that the Fed will restart its cutting cycle in September. In an environment where US growth has entered an expansionary phase, we expect financial conditions to remain favourable in the near term as the Fed restarts its cutting cycle. Furthermore, the fiscal stimulus facing the US economy from the "One Big Beautiful Bill" – which consensus expects will boost US GDP by up to 0.5% – and potentially tariff-funded fiscal cheques is likely to spur a continuation of risk-on sentiment. Cross-asset volatility has been on a downtrend since peak levels in April. We believe supportive fiscal policy combined with less restrictive monetary policy will keep financial conditions in check in the near term.

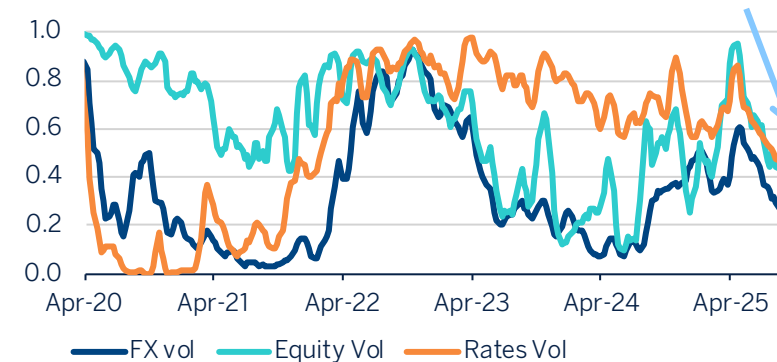
BBVA US FINANCIAL CONDITIONS INDEX (BBRIFCUS)

Source: Bloomberg and BBVA Global Markets Strategy



MACRO VOLATILITY ON A DOWNTREND

Source: Bloomberg and BBVA Global Markets Strategy



FX carry strategies favoured

Keep calm and carry on: The current environment of loose financial conditions and an expansionary growth regime has historically been favourable for FX carry strategies. FX carry strategies have tended to perform best when financial conditions are as loose as they are today. The table below summarises the FX carry strategy 3-month forward performance for different levels of our BBVA US Financial Conditions Index (FCI). The current environment of expansion is also favourable for FX carry strategies, particularly in LatAm. The best time to enter these strategies is when emerging from a recession. We initiated our positive view on the FX LatAm carry strategy back in April when we were just coming out of the trough in risk assets. Since then, the FX LatAm carry strategy has delivered the best returns among BBVA QIS risk-premia strategies.

CARRY STRATEGY PERFORMANCE VS. FCI

Source: Bloomberg and BBVA Global Markets Strategy

BBRIFCUS Index	BBVA FX Latam Carry	BBVA FX Global Carry	BBVA Credit Carry
0.5 - 1.0	0.7%	0.5%	0.9%
0.0 - 0.5	0.6%	1.0%	0.5%
-0.5 - 0	0.4%	0.7%	-1.4%
-1.0 - -0.5	1.1%	1.5%	-1.4%

CARRY STRATEGY PERFORMANCE VS. MACRO ECONOMY

Source: Bloomberg and BBVA Global Markets Strategy

Description	BBRIM AUS Index	BBVA FX Latam Carry	BBVA FX Global Carry	BBVA Credit Carry
# Recession	1	1.4%	1.8%	0.8%
# Recovery	2	0.9%	1.1%	1.8%
# Expansion	3	1.2%	0.8%	0.2%
# Expansion + CPI	4	-0.8%	-0.2%	0.9%
# Downturn	5	0.9%	1.4%	-0.1%
# Downturn + CPI	6	1.3%	1.0%	-1.7%

Equity vol and credit carry remain unattractive

Tight spreads making credit carry unattractive: The credit carry strategies incidentally have the worst performance at the FCI's current levels. This is because during times of extremely loose financial conditions, credit spreads have already tightened, which makes potential returns unattractive when entering credit carry strategies. This is also somewhat true for equity volatility carry strategies. At the current levels of 3-month SPX volatility, the 3M implied/1M realised tends to be the worst, with the highest level of potential drawdowns. In addition, short vol positions on the VIX are near the highest levels in the past three years, which makes equity vol carry unattractive. Finally, macro uncertainty regarding US fiscal policy and political tension with the Fed make shorting volatility a risky proposition.

CURRENT LEVEL OF EQUITY VOL MAKES VOL CARRY UNATTRACTIVE

Source: Bloomberg and BBVA Global Markets Strategy

SPX 3M volatility	Avg. 3M IV - 1M RV	Min 3M IV - 1M RV	Max 3M IV - 1M RV
<10.0	1.62	-	16.07
10.0 - 12.5	1.35	-	60.59
12.5 - 15.0	1.25	-	76.31
15.0 - 17.5	2.04	-	33.51
17.5 - 20.0	1.25	-	33.75
20.0 - 22.5	2.23	-	36.47
22.5 - 25.0	2.50	-	40.64
>25.0	-	1.85	-

CREDIT SPREAD NEAR HISTORICAL LOWS

Source: Bloomberg and BBVA Global Markets Strategy



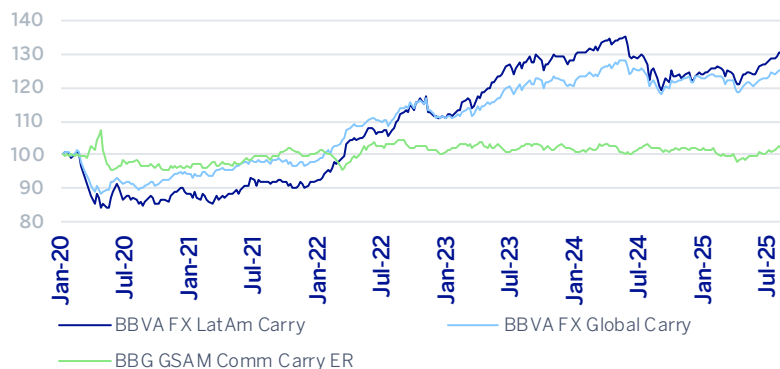
Other sources of carry

Commodity carry has performed well recently: The commodity carry strategy has performed well recently, in line with the FX carry strategy, although the performance of commodity carry trades in the post-COVID, high-inflation world has been underwhelming. Meanwhile, inflation remains a key concern for investors, hence we are worried about the sustainability of the commodity carry strategies.

Rates carry provides opportunities with risk: The US rates curve has recently become upward-sloping on the back of the return of term premia, particularly at the start of the year. While carry exists in rates space, US debt sustainability concerns are something investors need to monitor closely while adding duration for carry.

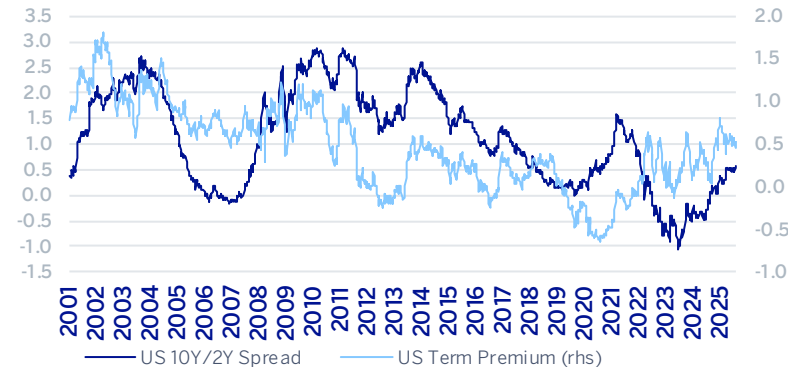
COMMODITY CARRY UNDERPERFORMED POST COVID

Source: Bloomberg and BBVA Global Markets Strategy



RATES CURVE STEEPER ON HIGHER TERM PREMIUM

Source: Bloomberg and BBVA Global Markets Strategy



BBVA risk-premia framework: stay long FX LatAm carry

- In line with our macro expectations, the **BBVA QIS framework also shows a preference for FX carry strategies**. We launched this framework at the start of the year and use this model to forecast six-month forward returns for each of the risk-premia strategies. Please see the appendix for detailed descriptions of our indicators.

BBVA RISK-PREMIA FRAMEWORK

Source: Bloomberg and BBVA Global Markets Strategy

Lead indicators			Leading Score	Momentum Score
FX Global Carry	PPP Indicator	FX vol indicator	100%	89%
FX LatAm Carry	Latam rate indicator	FX Latam vol indicator	89%	100%
FX LatAM Trend	Macro Vol indicator	Latam trend Indicator	78%	44%
Asset Allocator	Correlation indicator	Macro Vol indicator	67%	78%
Credit Trend	Credit Trend Score	Macro Vol indicator	56%	22%
FX Global Trend	Macro Vol indicator	Trend Indicator	44%	11%
Bond Trend	Macro Vol indicator	Trend Indicator	33%	0%
FX LatAm Value	FX Latam vol indicator		22%	67%
FX Global Value	FX vol indicator	FX Dispersion indicator	11%	33%
Credit Carry	Spread Indicator	Macro Vol indicator	0%	56%

- In line with a preference for the LatAm carry strategy, our framework also shows a preference for the LatAm trend strategy, which we believe makes sense given that the trend in LatAm currencies this year has been to stay long.
- Credit carry ranks as having the worst potential in our framework, due to the reasons previously discussed. The acute compression in spreads has resulted in limited carry opportunities in the credit space.

FX carry strategies lead the pack

BBVA QIS RISK-PREMIA MONITOR

Source: Bloomberg and BBVA Global Markets Strategy

	Performance						Volatility	Correlation 3M						Correlation percentile						Sharpe ratio	
	QTD	1M	3M	6M	YtD	1Y	60 days	SPX	US10Y	60/40	US IG	USD	VIX	SPX	US10Y	60/40	US IG	USD	VIX	10Y	1Y
FX LatAm Carry	2.9	1.4	4.9	4.5	6.2	8.9	4.4	5%	-34%	-21%	-35%	24%	-10%	7%	71%	12%	48%	25%	94%	0.45	0.98
FX LatAm Value	1.0	1.3	0.2	0.5	5.9	2.1	3.2	37%	2%	37%	7%	-49%	-39%	21%	48%	20%	35%	74%	76%	0.49	0.32
Asset Allocator	1.1	1.0	1.4	1.3	1.9	1.1	1.9	62%	26%	63%	43%	-39%	-55%	5%	16%	4%	2%	84%	97%	0.75	0.38
FX Global Value	- 1.3	0.9	- 0.9	- 0.2	2.5	- 5.3	6.2	38%	36%	63%	39%	-77%	-30%	14%	36%	14%	25%	82%	83%	0.27	- 0.92
FX Global Carry	2.2	0.8	3.1	2.1	2.3	5.7	3.5	3%	-41%	-28%	-40%	39%	-10%	8%	71%	13%	48%	17%	93%	0.70	0.84
FX LatAm Trend	0.7	0.7	1.2	0.3	- 0.9	- 2.1	1.7	36%	-19%	18%	-11%	-18%	-36%	34%	52%	34%	48%	48%	66%	0.40	- 0.60
FX Global Trend	- 0.2	0.7	0.4	- 1.7	- 3.6	- 4.0	2.2	43%	15%	49%	25%	-55%	-39%	37%	60%	42%	58%	40%	63%	0.33	- 1.06
Bond Trend	0.0	0.6	- 0.5	- 4.3	- 4.9	- 8.6	2.9	4%	33%	18%	34%	-15%	2%	78%	35%	74%	36%	42%	25%	0.41	- 1.83
Credit Carry	1.0	0.2	2.0	0.5	0.9	2.5	1.6	61%	-7%	42%	17%	-14%	-54%	0%	65%	1%	34%	62%	99%	0.52	1.08
Credit Trend	0.5	0.1	1.2	- 3.6	- 3.1	- 2.1	2.0	70%	-15%	52%	15%	-18%	-69%	22%	51%	22%	37%	57%	80%	0.26	- 0.81

- FX carry has been the best-performing strategy** since Liberation Day – in particular the LatAm carry strategy. Our BBVA asset allocation smart strategy comes next, driven by the strong rally in US equities since April. Given that our macro indicator suggests the US has already moved into an expansionary regime, combined with loose financial conditions, we expect FX carry strategies and our asset allocation strategy to continue to be the best performing for the rest of the year and into next year.
- FX value strategies have lost momentum** recently, in line with our expectations since the start of the year. Our macro QIS framework continues to suggest a challenging outlook for FX value trades. The LatAm value strategy has still performed well due to its long LatAm FX bias, which we believe should continue to work well in the near term.
- The performance of **trend strategies** has stabilised recently. Cross-asset trend strategies have had a difficult period since 2Q24, but their performance seems to have stabilised in recent months. As the initial bout of volatility around the new US government stabilises, we believe trend strategies are likely to make a comeback, possibly next year. See the next slide for more details.

Worst is over for trend strategies

The trend has not been a friend: Trend strategies have been under pressure since 2Q24. The CTA index has seen a 15% correction since last year. Historically, it is normal for trend strategies to go through challenging periods during times of regime change, like we have experienced this year. More recently, trend strategies have started to make a comeback as macro uncertainty around the trade war and inflation begins to subside. Risks remain on the US debt suitability side, which still makes this a challenging environment for trend strategies, particularly in rates and FX.

Calm after the storm: Trend strategies had nearly four years of solid performance post-COVID, and even in 2022, when both bond and equity markets underwent a decent correction. As the initial bout of volatility around the new US government stabilises, we expect trend strategies to make a comeback. Having a portfolio of cross-asset trend strategies could be the solution in the near term.

CTA STRATEGIES HAVE SEEN PERFORMANCE STABILISE

Source: Bloomberg and BBVA Global Markets Strategy



BBVA TREND STRATEGIES STARTING TO DELIVER POSITIVE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



QIS continues to provide a source of uncorrelated alpha

BBVA QIS CORRELATION MONITOR (1Y)

Source: Bloomberg and BBVA Global Markets Strategy

	Credit Carry	FX LatAm Carry	FX Global Carry	Credit Trend	FX LatAm Trend	FX Global Trend	Bond Trend	Asset Alloc	FX LatAm Value
FX LatAm Carry	32%								
FX Global Carry	30%	90%							
Credit Trend	21%	-2%	2%						
FX LatAm Trend	-15%	-13%	-6%	32%					
FX Global Trend	-17%	-10%	-5%	31%	91%				
Bond Trend	-21%	-4%	-5%	-12%	12%	17%			
Asset Alloc	40%	16%	18%	20%	-1%	-3%	0%		
FX LatAm Value	22%	42%	30%	-5%	-24%	-22%	1%	11%	
FX Global Value	32%	11%	8%	1%	-18%	-22%	-9%	22%	59%

AVERAGE PAIRWISE CORRELATION NEAR LOWS

Source: Bloomberg and BBVA Global Markets Strategy



The average pairwise correlation between risk-premia strategies seemed to have troughed recently, but remains near record lows. We have continued to highlight the **diversification potential of using QIS risk premia in investor portfolios**. In a world of positive bond/equity correlation on the way down, we believe QIS strategies continue to offer a good source of diversification and alpha for portfolios.

Interestingly, the correlation of our preferred FX LatAm carry strategy to the SPX is just 5%. We are still in an environment where the outlook for US equities remains balanced, with concerns around US debt sustainability and valuations amid stable growth and loose financial conditions. In such an environment, adding strategies with near-zero correlation to equities could be beneficial.

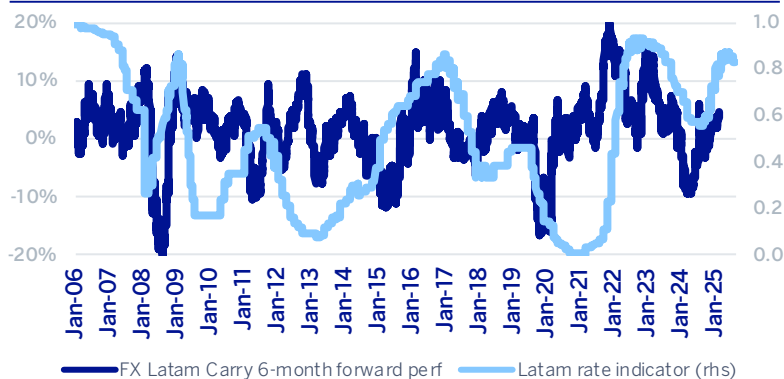
2. Trade of the month: FX LatAm carry

Trade of the month: FX LatAm carry

- Trade of the month: FX LatAm carry** – in multiple publications this year (Risk Premia: After Liberation Day – 23 April 2025, and Risk Premia: Keep calm and carry on! – 10 June 2025), we highlighted our preference for the BBVA FX LatAm carry strategy. We saw this as a contrarian trade when we initiated it in April, given market volatility around the Liberation Day event. Since our publications, the popularity of EM carry trades has increased with the continued depreciation of the USD. We see the current environment of loose financial conditions and a stable global growth outlook as ripe conditions for this trade.
- Rate differential:** The interest rate differential remains one of the key reasons for our preference for LatAm FX carry strategy. The rates differential between LatAm economies and the rest of the world remains elevated and is hardly coming down fast enough. This suggests to us that despite strong performance since the trough in April, there remains potential for such strategies to continue to perform. Especially given elevated valuations in equity markets, we see FX carry strategies as a potential returns diversifier.

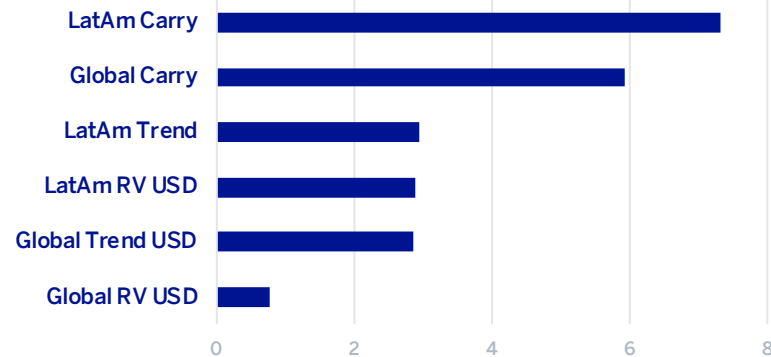
LATAM RATE INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



BBVA FX CARRY (%)

Source: Bloomberg and BBVA Global Markets Strategy

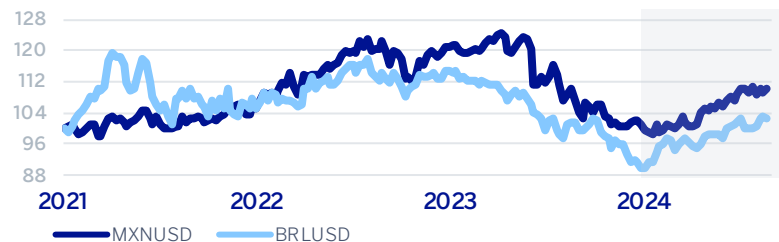


FX LatAm carry: is it priced in?

- **USD has been the driver:** The USD peaked around the time the new US government took office and has been on a downtrend ever since. This was similar to what happened in Trump's first presidency when the USD depreciated in his first year in office. The bearish USD narrative took a pause in July but has resumed since the beginning of August, with potentially further to run as the Fed restarts its cutting cycle.
- While EM FX carry has gained popularity of late, we see USD bearishness as the key driver. The BBVA FX strategy team sees considerable room for USD downside. They see fast money already short USD and a more meaningful shift from real money underway, which has substantial potential to hurt the USD given the assets under management and the strong US asset bias we have seen over the past decade. See - [FX Insights 3Q 2025 – Keep calm and short USD](#).
- **EM FX has room to run against non-USD FX:** The BRL and MXN have appreciated by 14.1% and 9.4%, respectively, against the USD since the start of the year, while the performance of LatAm currencies vs. our basket of lowest-yielding currencies shows that the MXN has depreciated by 0.3% and the BRL by just 4.6% year to date. The bearish view of the USD has become well documented, as has consensus as a result, and we see room for the FX carry trade to play out within non-USD currencies.
- **A weak USD helps EMs:** A weak USD is typically good for emerging markets due to: a) a large part of EM debt denominated in USD; b) room for capital inflows during periods of USD weakness; and c) higher commodity prices priced in EM currencies help commodity exporters. While we have seen a weak USD, we do not believe the positive effects for EM economies have fully played out.

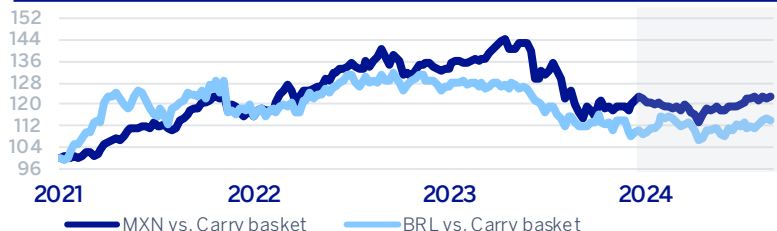
MXN AND BRL VS. USD

Source: Bloomberg and BBVA Global Markets Strategy



MXN AND BRL VS. BASKET OF LOWEST-YIELDING CURRENCIES

Source: Bloomberg and BBVA Global Markets Strategy



FX LatAm carry: is it decorrelated from equities?

- Is it decorrelated from equities?** The chart below looks at 20 years of performance comparison between FX LatAm carry and equities. In most periods, we tend to see a strong correlation between FX carry strategy and equity market returns. This is due to the risk-positive nature of both strategies. Given that we have an equity outlook with limited returns, a key question we have been asked by clients is: *"can carry strategies perform despite flat/negative equity returns?"*.
- History suggests that they can:** Looking back at history, we see three main instances of strong FX LatAm carry returns despite limited equity returns – 2005-06, 2016 and 2022. In all three instances, the BBVA LatAm rate indicator was showing a strong yield differential between LatAm currencies and the lowest-yielding currencies in our universe. In sum, LatAm carry strategies can deliver strong returns despite muted equity returns during periods of high carry potential, and we are currently in such an environment.
- Risks:** In all instances of a drawdown of more than 20% in equity markets in the past, we have tended to see a drawdown in carry strategies. This was further evidenced during the equity market sell-off in April when both equities and our FX LatAm carry index corrected sharply. We have constructed our BBVA FX LatAm carry index with and without a VIX-based FX filter to protect investors from sharp drawdowns as a result (see the next slide for more details). In our base case, we do not see any significant correction in equities on tariff uncertainty, or at least not as a result of the impact of tariff headlines on markets, which are beginning to subside. This suggests that the rate differential should drive a positive outcome for this strategy, as long as we do not see another double-digit correction in equities.

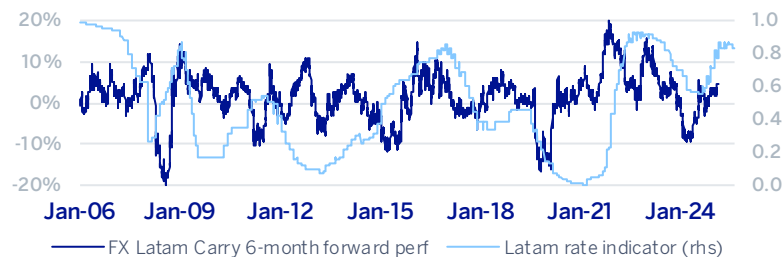
6M RETURN COMPARISON BETWEEN FX CARRY AND EQUITIES

Source: Bloomberg and BBVA Global Markets Strategy



LATAM RATE INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy

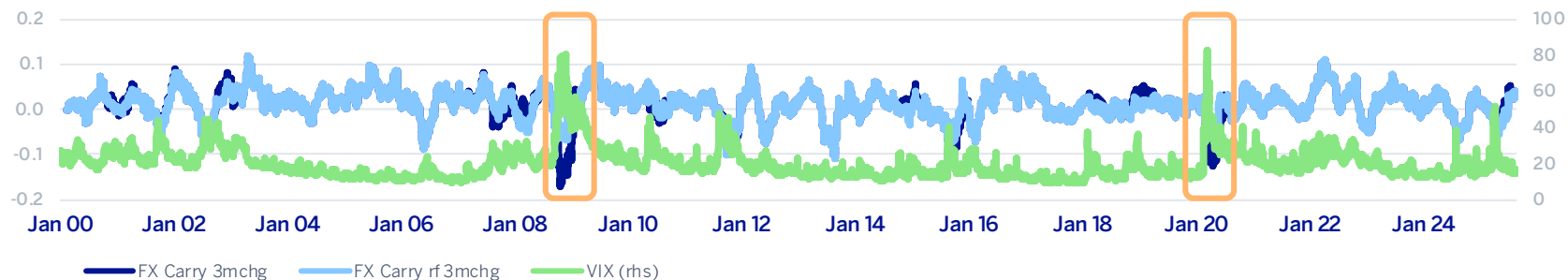


FX carry: risk filter

- Protecting against drawdowns:** As discussed in the previous slide, in all instances of a drawdown of more than 20% in the equity market in the past, we have tended to see a drawdown in carry strategies. To protect against such drawdowns, our FX carry strategies are available with and without a VIX-based risk filter. Our FX carry strategy with a risk filter helps investors to achieve a better Sharpe ratio compared to the existing equity exposure in their portfolios.
- Risk filter:** Our risk filter is designed to be triggered to protect investors against systemic shocks. The chart below highlights the 3-month rolling return between FX carry strategies with and without this risk filter. This risk filter protected investors against the sharp drawdown during the 2008 financial crisis and 2020 COVID crisis. In both instances, the alpha of adding this risk filter resulted in an excess return of c.10%. We believe adding such overlays can protect investors from drawdowns and, as a result, could drive a higher risk allocation into such strategies.
- Methodology:** The VIX-based risk signal turns off the strategy during short periods when the VIX jumps by more than two standard deviations in a five-year window of normalised VIX index performance. The strategy is turned back on once the VIX index drops by more than two standard deviations from the maximum point reached.

FX CARRY: RISK FILTER

Source: Bloomberg and BBVA Global Markets Strategy

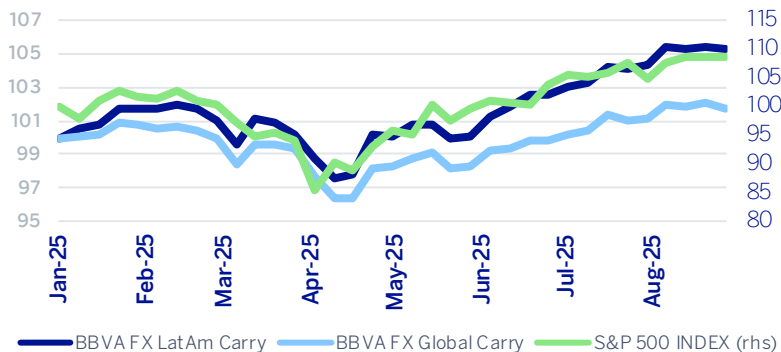


FX carry: key risks

- Key risks – macro:** Like most trades, the FX carry strategy we like also comes with inherent risks. Macro risks are clearly explained by the correlation of this strategy during the April equity market correction. A rise in macro volatility driven by global risk-off sentiment leading to a double-digit equity market correction is clearly a risk to this trade. While not our base case, we nonetheless prefer to implement this strategy with risk control to protect against such risks.
- Key risks – micro:** The chart below highlights the short exposure of our carry basket. We see JPY appreciation as a key micro risk. The yield spread between Japanese and US 10-year government bonds has narrowed by about 90bp this year. This compression would normally support a stronger performance from the JPY, even against other G5 currencies. However, since mid April, the global "risk-on" environment has favoured capital flows into other regions in search of higher returns and more Beta, thus limiting demand for the JPY. Much higher carry potential in LatAm should still support a relatively better performance from LatAm FX vs. the JPY, given positioning towards the JPY has remained at its longest on record outside this year (source: CFTC).

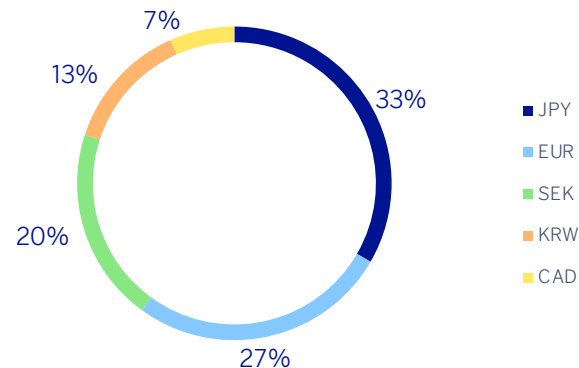
SUSCEPTIBLE TO EQUITY CORRECTION

Source: Bloomberg and BBVA Global Markets Strategy



FX LATAM CARRY SHORT EXPOSURE

Source: Bloomberg and BBVA Global Markets Strategy

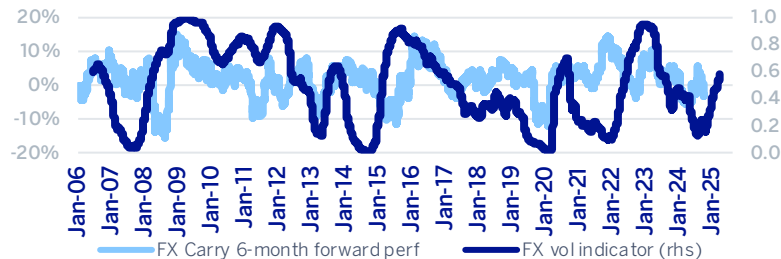


3. FX risk premia

FX carry – global

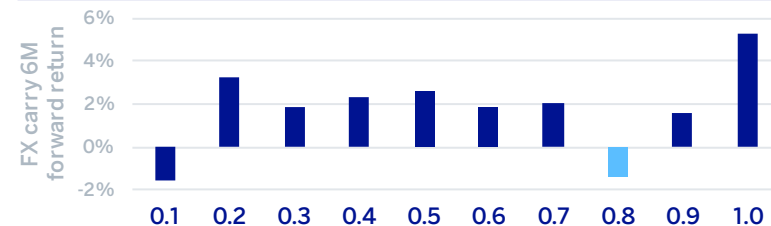
FX VOL CARRY INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



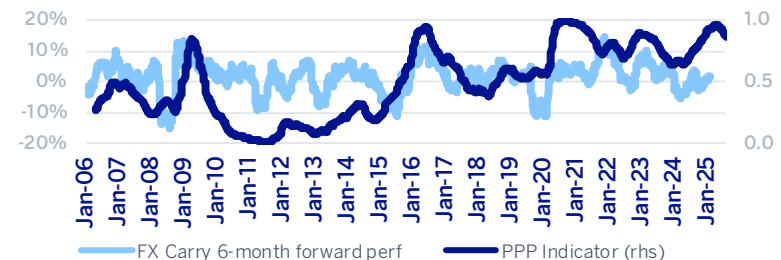
THE FX VOL INDICATOR SUGGESTS NEGATIVE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



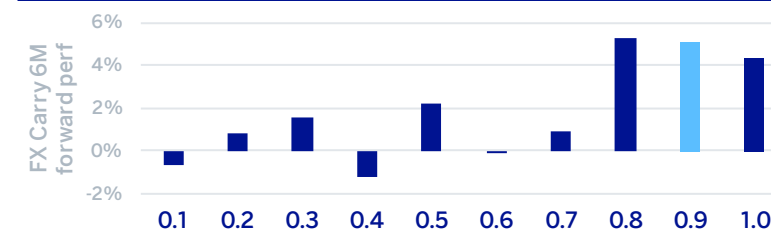
PPP INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



THE PPP INDICATOR SUGGESTS STRONG RETURNS

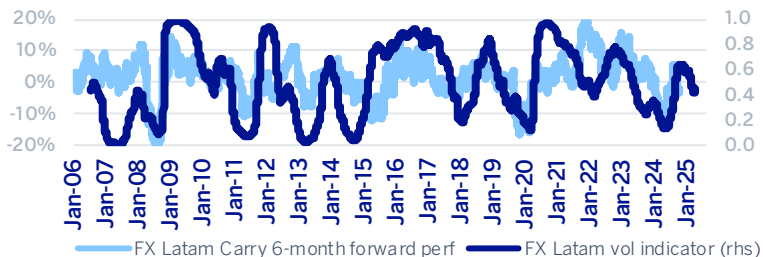
Source: Bloomberg and BBVA Global Markets Strategy



FX carry – LatAm

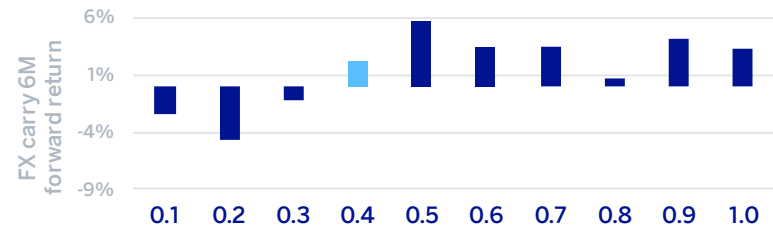
FX LATAM VOL CARRY INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



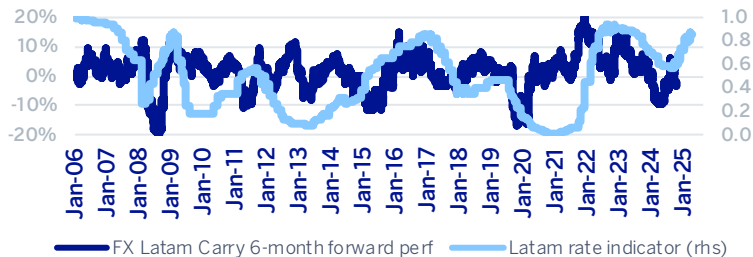
THE FX LATAM VOL CARRY INDICATOR SUGGESTS STRONG RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



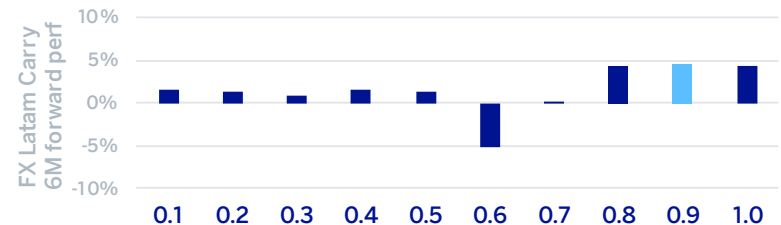
LATAM RATE INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



THE LATAM RATE INDICATOR SUGGESTS STRONG RETURNS

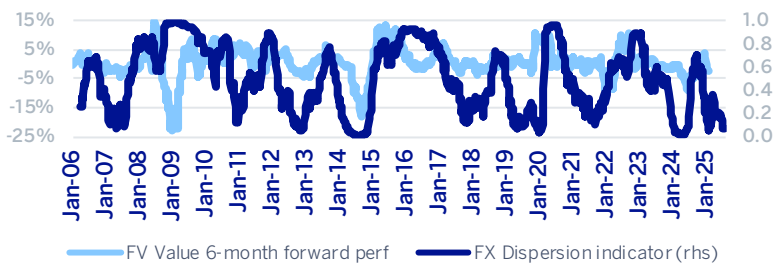
Source: Bloomberg and BBVA Global Markets Strategy



FX value – global

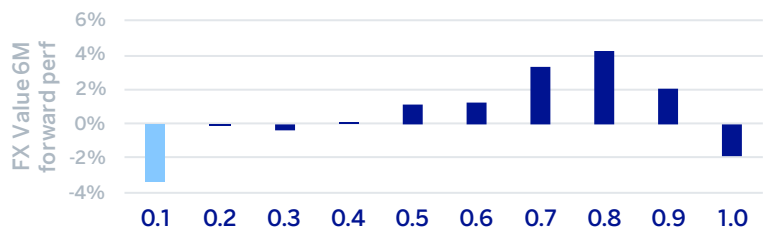
FX DISPERSION INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



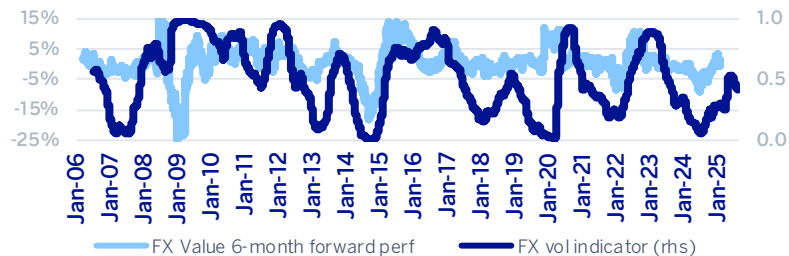
THE FX DISPERSION INDICATOR SUGGESTS FLAT RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



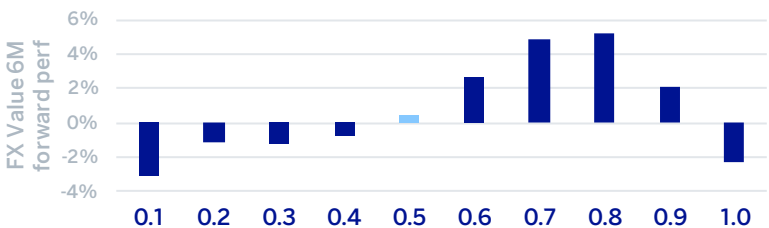
FX VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



FX VOL INDICATOR SUGGESTS STRONG RETURNS

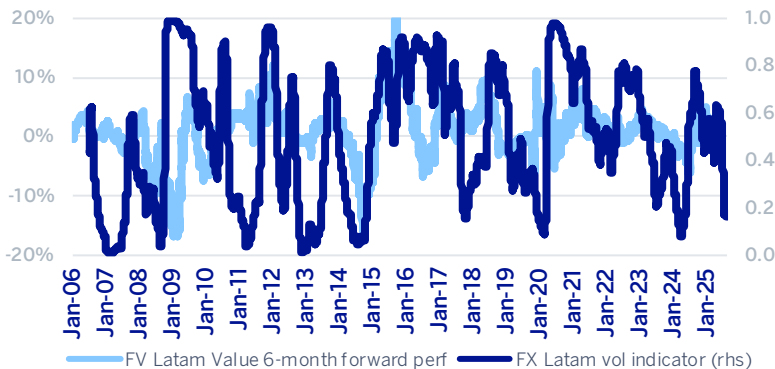
Source: Bloomberg and BBVA Global Markets Strategy



FX value – LatAm

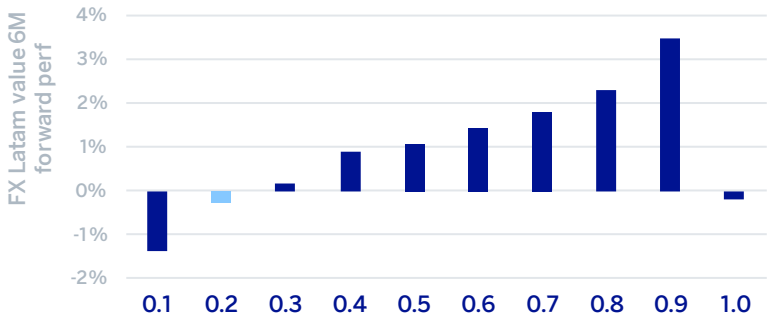
FX LATAM VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



THE FX LATAM VOL INDICATOR SUGGESTS STRONG RETURNS

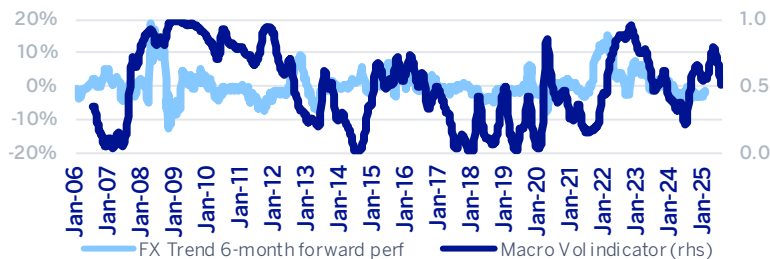
Source: Bloomberg and BBVA Global Markets Strategy



FX trend – global

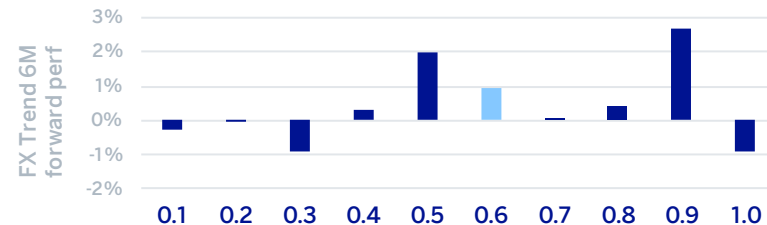
MACRO VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



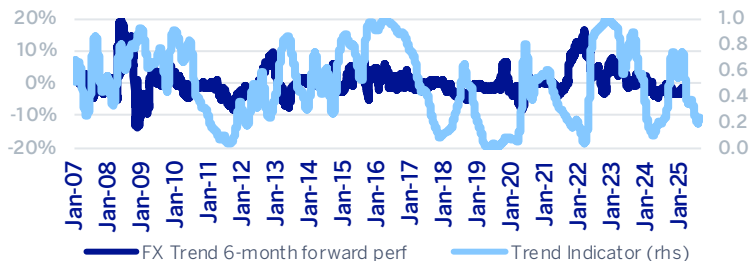
THE MACRO VOL INDICATOR SUGGESTS MODEST RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



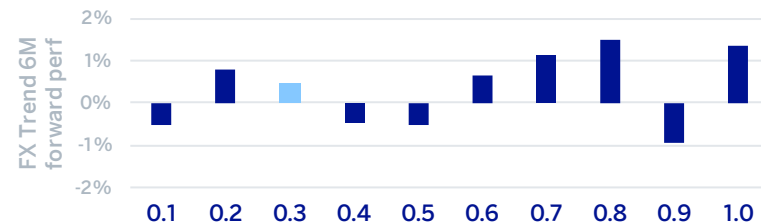
FX TREND INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



THE FX TREND INDICATOR SUGGESTS NEGATIVE RETURNS

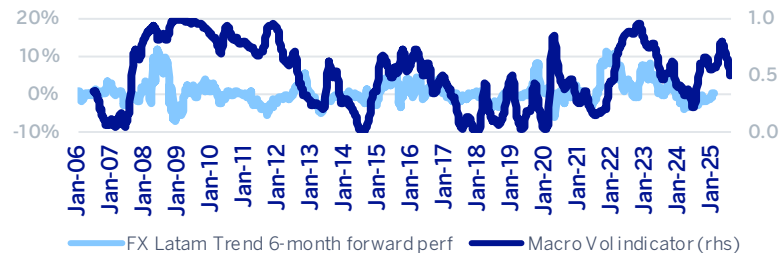
Source: Bloomberg and BBVA Global Markets Strategy



FX trend – LatAm

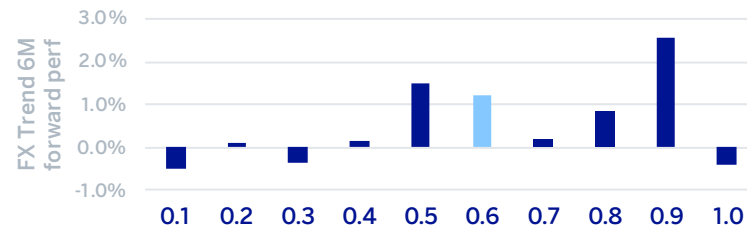
MACRO VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



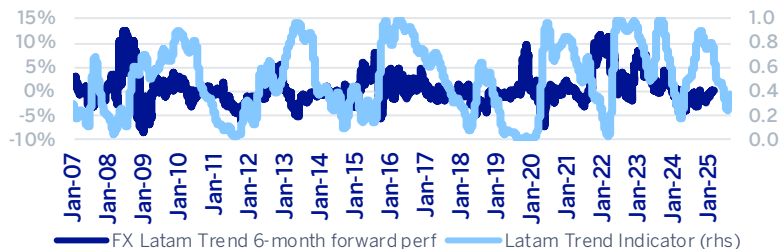
THE MACRO VOL INDICATOR SUGGESTS MODEST RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



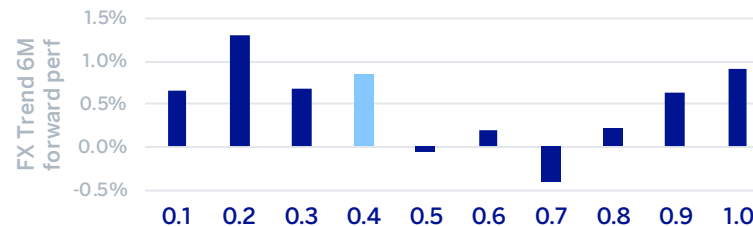
FX LATAM TREND INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



THE FX LATAM TREND INDICATOR SUGGESTS NEGATIVE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy

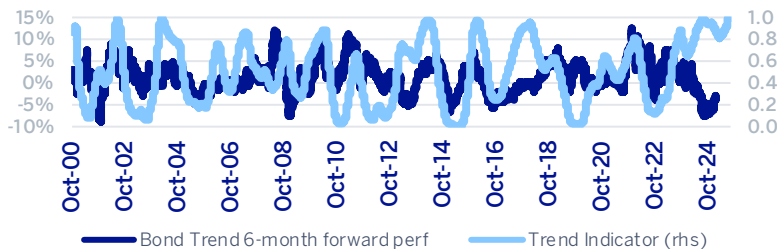


4. Bond and credit risk premia

Bond trend

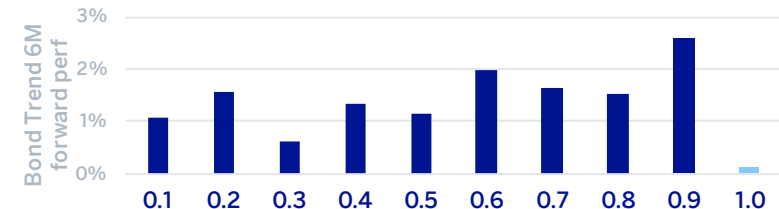
BOND TREND INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



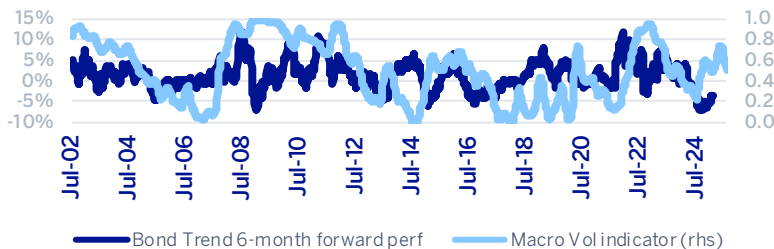
THE BOND TREND INDICATOR SUGGESTS STRONG RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



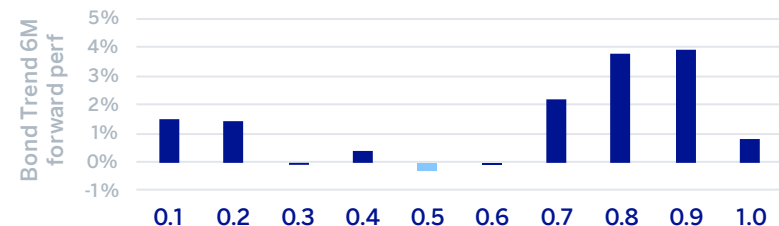
MACRO VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



THE MACRO VOL INDICATOR SUGGESTS STRONG RETURNS

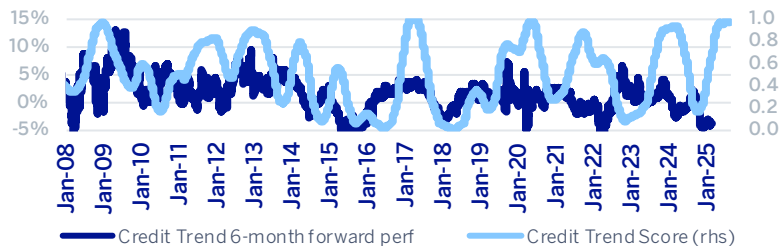
Source: Bloomberg and BBVA Global Markets Strategy



Credit trend

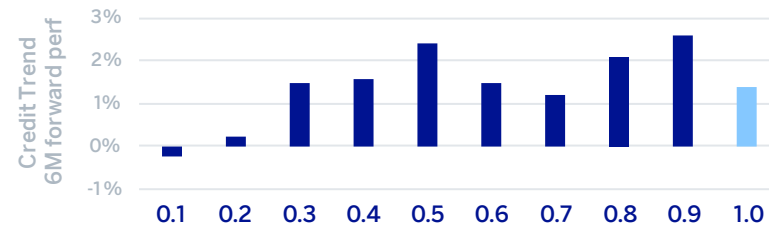
CREDIT TREND INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



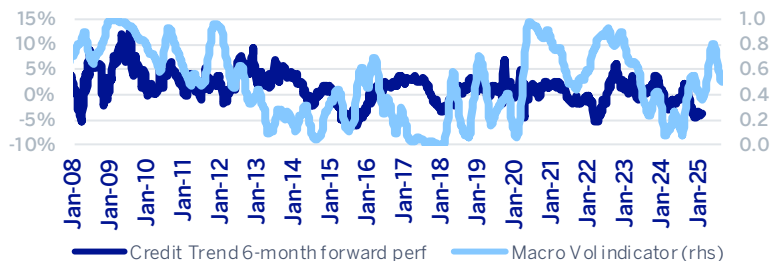
THE CREDIT TREND INDICATOR SUGGESTS STRONG RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



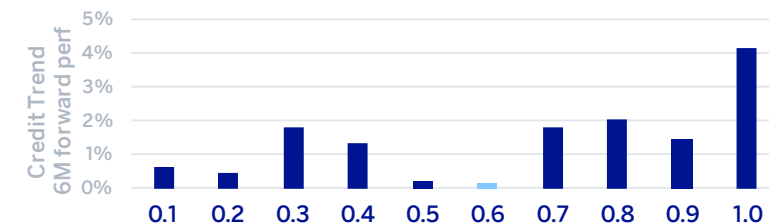
MACRO VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



THE MACRO VOL INDICATOR SUGGESTS AVERAGE RETURNS

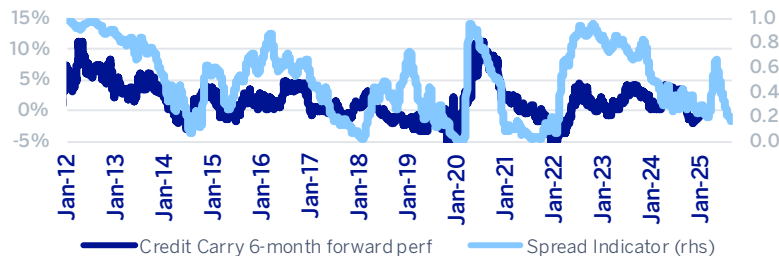
Source: Bloomberg and BBVA Global Markets Strategy



Credit carry

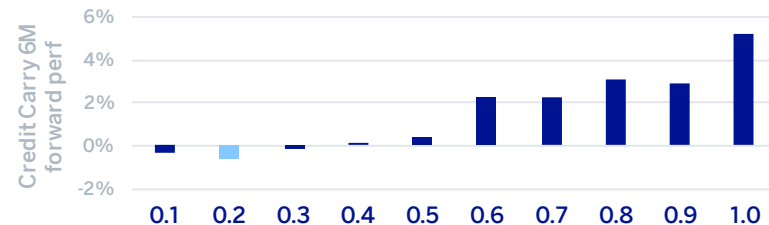
CREDIT SPREAD INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



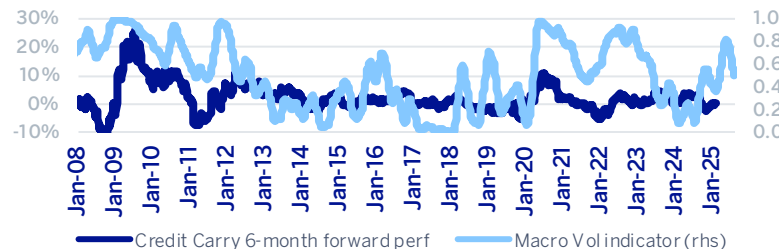
THE CREDIT SPREAD INDICATOR SUGGESTS LIMITED RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



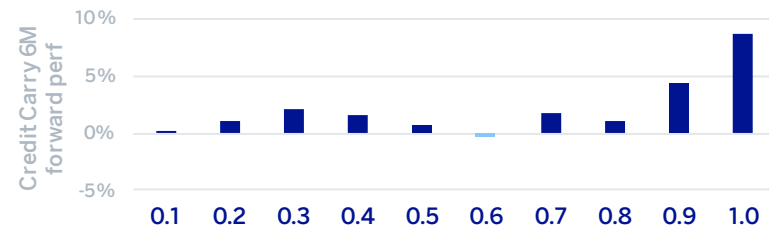
MACRO VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



THE MACRO VOL INDICATOR SUGGESTS ONLY STRONG RETURNS

Source: Bloomberg and BBVA Global Markets Strategy

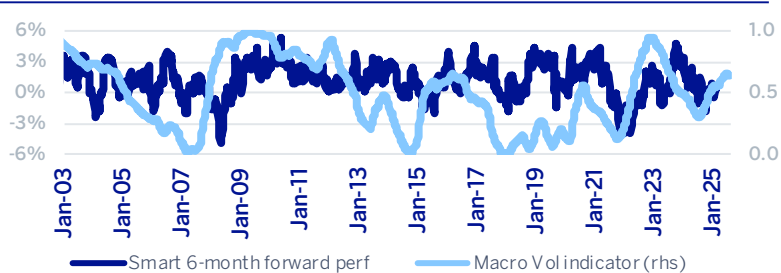


5. Asset allocator

Asset allocator – SMART

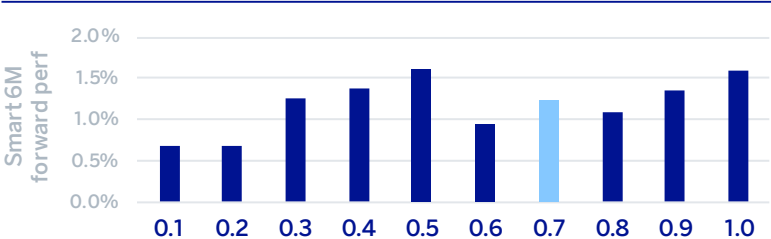
MACRO VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



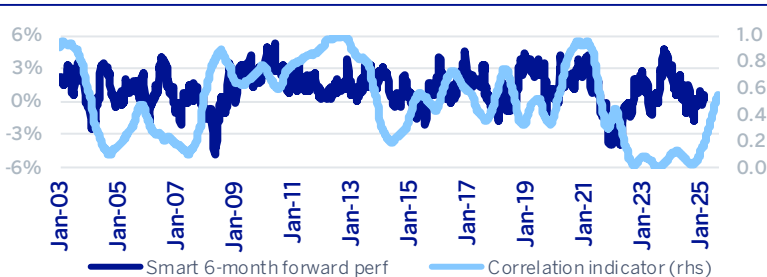
THE MACRO VOL INDICATOR SUGGESTS AVERAGE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



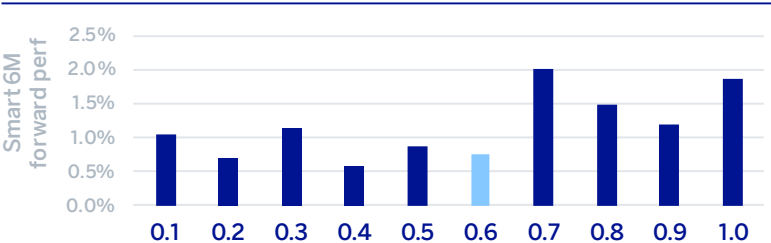
CORRELATION INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



THE CORRELATION INDICATOR SUGGESTS AVERAGE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



6. Appendix

BBVA risk-premia framework

- **Fixed income risk premia:** This is our risk-premia publication covering risk-premia strategies in FX, bonds, credit and our asset allocator. The purpose of this publication is to analyse BBVA's risk-premia strategies and provide a framework for our readers to select the best risk premia in the current uncertain environment based on our macro framework. To rank the risk-premia strategies, we comply with the following framework.
 - For each risk-premia strategy, we have identified the one or two most relevant leading indicators that have historically predicted returns for the respective strategy. We have tested the plenitude of macro indicators and only selected the ones where we feel it makes the most macro sense and where we see evidence of high predictability in terms of forward returns.
 - Based on our leading indicators, we identify whether the current environment is favourable for “modest”, “average” or “strong” returns for each of our risk-premia strategies. This is driven by how successful each indicator has been in predicting the forward returns of each strategy.
 - See the index description slides for the details of each indicator that we have used to predict the performance of risk-premia strategies.
 - Lastly, we combine all the return predictions based on our selected leading indicators for each risk-premia strategy. We use this framework to select our preferred risk-premia strategy of the month. See slide 12 for the ranking in the current markets.
 - Our ranking is based on risk-adjusted returns.
- **Risk-adjusted returns:** We rank the strategies based on risk-adjusted returns. We believe the allocation to risk-premia strategies should be based on risk and the Sharpe ratio and, as a result, our model selects strategies that we believe are likely to deliver the best volatility-adjusted returns in the months ahead. We use the output of our model, which we overlay with the current macro environment, to regularly propose our preferred risk-premia strategy. This publication also helps readers monitor the recent trends in the key risk-premia strategies as well as the most relevant performance drivers.

Indicator description

INDICATOR DESCRIPTION

Source: Bloomberg and BBVA Global Markets Strategy

Strategy	Indicator	Description
FX global carry	FX vol indicator	The BBVA FX vol carry indicator is calculated based on realised US dollar volatility. We find USD vol tends to lead FX carry strategy performance over the next six months with weak performance just after a low vol regime. USD vol has climbed recently on tariff risks. Our indicator currently forecasts negative returns.
FX global carry	PPP indicator	The BBVA PPP indicator is derived based on divergence from the PPP value for FX pairs. A high divergence tends to indicate a better environment for carry trades with strong momentum. Convergence to fair value tends to be a risk. Currently divergence remains high suggesting strong potential returns.
FX LatAm carry	FX LatAm vol indicator	The BBVA FX LatAm vol carry indicator is calculated based on realised MXN and BRL volatility. We find the MXN and BRL vol tends to lead FX LatAm carry strategy performance over the next six months. The FX vol has climbed recently on tariff risks, which suggests strong forward looking returns.
FX LatAm carry	LatAm rate indicator	The BBVA LatAm rate indicator is based on the differential between LatAm and global central bank interest rates. The current spread remains elevated; suggesting a positive outlook.
FX global value	FX dispersion indicator	The BBVA FX dispersion indicator is based on the dispersion of weekly returns between FX pairs. We find that a high dispersion tends to drive more dislocation opportunities for FX value indices. The dispersion is currently picking up after falling to lows at the start of the year, suggesting limited returns.
FX global value	FX vol indicator	The BBVA FX vol value indicator is based on the realised volatility of the global FX pairs included in our index. A high FX vol tends to lead to more dislocations and, as a result, a strong performance over the next six months. FX vol has climbed recently but not enough to trigger the strongest signal for value strategies.
FX LatAm value	FX LatAm vol indicator	The BBVA FX LatAm vol value indicator is based on the realised volatility of the BRL and MXN. A high FX vol tends to lead to more dislocations and, as a result, a strong performance over the next six months. LatAm FX vol has dropped recently as Trump left Canada and Mexico out of the Liberation day tariff announcement.
FX global trend	Macro vol indicator	The BBVA macro vol indicator is derived from a combination of the VIX, CVIX and Move index. A high vol tends to lead to strong performance over the next six months. The cross-asset vol has climbed recently, although remains near long-term median levels triggering a neutral signal for trend strategies.
FX global trend	Trend indicator	The BBVA FX trend indicator is based on a blend of 3, 6 and 12-month absolute risk-adjusted returns of underlying FX pairs. Trend strategies tend to have a self-reinforcing effect, a strong historic trend tends to be a good predictor of the forward trend.
FX LatAM trend	Macro vol indicator	The BBVA macro vol indicator is derived from a combination of the VIX, CVIX and Move index. A high vol tends to lead to strong performance over the next six months. The cross-asset vol has climbed recently, although remains near long-term median levels triggering a neutral signal for trend strategies.
FX LatAM trend	LatAm trend indicator	The BBVA FX LatAm trend indicator is based on a blend of 3, 6 and 12-month absolute risk-adjusted returns of underlying FX LatAm pairs. Trend strategies tend to have a self-reinforcing effect, a strong historic trend tends to be a good predictor of the forward trend.

Indicator description

INDICATOR DESCRIPTION

Source: Bloomberg and BBVA Global Markets Strategy

Strategy	Indicator	Description
Bond trend	Trend indicator	The BBVA bond trend indicator is based on a blend of 1, 3, 6 and 12-month absolute risk-adjusted returns of US and German 10-year bond futures. Trend strategies tend to have a self-reinforcing effect, a strong historic trend tends to be a good predictor of the forward trend.
Bond trend	Macro vol indicator	The BBVA macro vol indicator is derived from a combination of the VIX, CVIX and Move index. A high vol tends to lead to strong performance over the next six months. The cross-asset vol has climbed recently, although remains near long-term median levels triggering a positive signal for trend strategies.
Credit trend	Credit trend score	The BBVA credit trend indicator is based on a blend of 3 and 6-month absolute risk-adjusted returns of the underlying credit indices. Trend strategies tend to have a self-reinforcing effect, a strong historic trend tends to be a good predictor of the forward trend.
Credit trend	Macro vol indicator	The BBVA macro credit vol indicator is derived from the VIX index. A high vol tends to lead to strong performance over the next six months. The VIX index has recently climbed to crisis levels, and currently suggests a positive signal for trend strategies.
Credit carry	Spread indicator	The BBVA spread indicator is based on the HY/IG spread. A high spread tends to drive interesting opportunities for credit carry strategies. The recent spike in HY/IG spreads means the strategy looking attractive from a spread perspective.
Credit carry	Macro vol indicator	The BBVA macro credit vol indicator is derived from the VIX index. A high vol tends to lead to strong performance over the next six months. The VIX index has recently climbed to crisis levels, and currently suggests a positive signal for the carry strategies.
Asset allocation	Macro vol indicator	The BBVA macro vol indicator is derived from a combination of the VIX, CVIX and Move index. A high vol tends to lead to strong performance over the next six months. The cross-asset vol has climbed recently, although it remains near long-term median levels thus triggering a neutral signal for trend strategies.
Asset allocation	Correlation indicator	The BBVA correlation indicator is based on US bond vs. equity correlation. A high positive correlation over recent years has been associated with weak returns across assets. We believe we are entering a regime of negative bond equity correlation, which should once again be favourable for this strategy.

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Recommendations, distribution and history

Long/Buy/Overweight: we recommend the investor purchase the financial instrument in question, as we think its value will increase.

Hold/Neutral: we recommend the investor neither increase nor decrease his/her current holding of the financial instrument in question at current prices.

Short/Sell/Underweight: we recommend the investor sell the financial instrument in question, as we expect its value to decrease.

Long / Short: we recommend the investor buy a given financial instrument (Long) and sell another financial instrument (Short) at the same time in the same notional or equivalent risk, or in the proportion that is specified in the Marketing Material.

Relative Value: we recommend the investor combine two or more assets to benefit from the differential behaviour of one (or more instrument) over another (or group thereof).

This is Marketing Material that has been prepared as a one-off publication, and no updates are planned for it.

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In the preparation of this Marketing Material, no specific valuation methodology has been used, only Expert judgment. If you require additional information, contact the Expert for further clarification.

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By virtue of Regulation (EU) 596/2014 on Market Abuse and Delegated Regulation (EU) 2016/958, the proportion of recommendations and their category/meaning as well as the averages of these recommendations are shown for the last 12 months. The average in which BBVA or any of the companies of the BBVA Group have provided investment banking services or have acted as an underwriter in public offerings of securities is also shown for each category and recommendation type.

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Recommendation history

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The Experts hereby certify that (i) the views expressed in this Marketing Material accurately reflect their personal views about the subject companies and their securities and (ii) their remuneration may be linked to trading or sales in the instruments included in this document or in relation to the global sales and trading activity of the BBVA unit or group.

