



Corporate &
Investment Banking

BBVA Global Risk Premia Strategy

Fixed Income Risk Premia

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London, 11 March

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Creating Opportunities



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Key conclusions

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Creating Opportunities

We are living in interesting times

- **Once-in-a-career shift:** we have been living in unprecedented times since the start of the year, with a once-in-a-career shift in German fiscal policy, US trade policy and transatlantic relations. Each of these individual changes has the potential to significantly impact the financial markets, and when combining all three events together, predicting market performance and writing market outlooks has never been more challenging. We believe the current environment is supportive of using quantitative tools and frameworks based on evidence to drive potential investment outcomes. We have once again seen consensus trades underperform despite strong fundamentals, as in the case of the AI thematic.
- **End of US exceptionalism?** The consensus expectation at the start of the year was for US exceptionalism, although market performance has been to the contrary with non-US equity markets leading the equity rally. In Europe, value has performed strongly YtD, with a notably strong performance from European banking stocks. Positioning is key here. For the past two years, the 'Magnificent 7' led the global equity rally and a well-diversified portfolio underperformed as a result. However, this year's diversification is reaping benefits, with global stocks staging a comeback. We believe positioning is still overweight the US and underweight Europe, as observed by the futures open interest on the SX5E Index, which remains near 20-year lows.
- **Trump 2.0 vs. 1.0:** the most striking similarity between both Trump's terms in office is the drop in the USD after he took office. Since November until early January, we saw Trump trades work somewhat, although they have gradually lost steam since the start of the new presidency.
- **Dispersion is the new normal:** the dispersion between equity regions, sectors and factors have been significant since the start of the year. This theme has also been observed in our risk-premia space with average pair-wise correlation between risk-premia strategies making a new low. Navigating increasing global divergence was the headline in our 2025 outlooks and this is exactly what we have observed year-to-date.
- **Shifting macro regime:** over the last six months we have also seen risk appetite fade and the demand for protection rise. We have noticed the VIX drifting higher on average, with the equity skew making new post-COVID highs. Rhetoric at the start of last year was still all about a US recession, with the debate centred around a hard or soft landing. We are now in a reflationary regime, with the US exceptionalism theme losing steam and non-US equities outperforming YtD.
- **Looking ahead:** we expect the dispersion between regions, assets and risk premia to remain intact. We suggest a well-diversified portfolio in the current environment with significant shifts in the macro environment. The Sharpe ratio will likely remain key to allocation. The Credit trend is our preferred risk premia of the month. That said, we are looking for a better entry point for cross-asset trend strategies. FX carry continues to be worst performer since the global JPY carry unwind. We see the stars aligning for carry strategy again once we have more clarity on US trade policy.

Trade of the month: Credit Trend

- **Shifting macro regime:** trend strategies have been under pressure since the JPY carry trade unwound in mid-2024. The VIX has also started to drift higher on average, with the equity skew catching a bid close to post-COVID highs. The environment of macro regime shift since last summer has driven the underperformance of trend strategies. Rhetoric at the start of last year was still all about a US recession, with the debate centred around a hard or soft landing. We are now in a reflationary regime, with the US exceptionalism theme losing steam and non-US equities outperforming YtD. In addition, we are now in unprecedented times, with a once-in-a-career shift in German fiscal policy, US trade policy and transatlantic relations.
- **Time to befriend the trend again?** An environment of shifting regimes and increasing macro volatility tends to be challenging for trend strategies. Although, as the dust settles and volatility starts to come under pressure, we tend to see a better performance from trend strategies in particular. We believe we are at the start of a new regime, although it might be too early to go all-in on risk allocation in this trend.
- **The credit trend** is currently screening high on our risk-premia allocation metrics. Our credit-trend score indicator is near its highs, which has historically led to a strong performance for credit trend strategies. Our macro volatility indicator also suggests positive returns in this space.

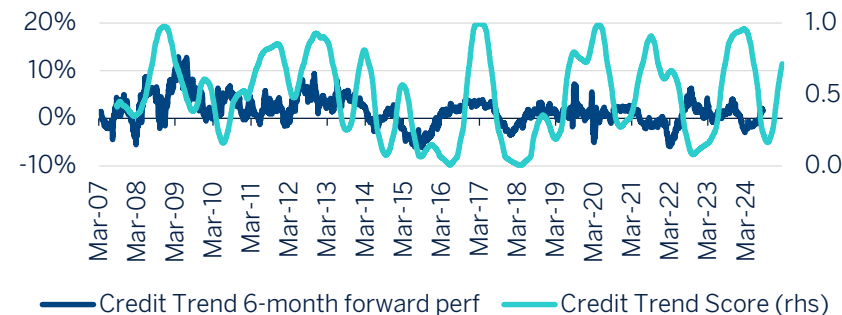
The CTA benchmark has dropped since mid-2024

Source: Bloomberg and BBVA Global Markets Strategy



BBVA's credit-trend indicator suggests continued positive returns

Source: Bloomberg and BBVA Global Markets Strategy



Introducing BBVA Risk-Premia framework

- **Fixed Income Risk Premia:** This is the first edition of our new risk-premia publication covering risk-premia strategies in FX, Bonds, Credit and our asset allocator. The purpose of this publication is to analyse BBVA 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 plentitude of macro indicators and only selected the ones where we feel it makes 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 “muted”, “average” or “strong” returns for each of our risk-premia strategy. This is driven by how successful each indicator has been in predicting the forward returns of each strategy.
 - See the Appendix section for the detail of each indicator that we have used to predict performance of risk-premia strategies.
 - Finally, 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 7 for the ranking for 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 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.
- **Drivers of risk-premia strategies:** on slides 8 & 9 we also analyse the recent drivers of each of the risk-premia strategy. Rising equity volatility seems to be one of the key drivers of underperformance in many of our risk-premia strategy at the moment. The average pairwise correlation between different risk-premia strategies has recently dropped to its lows. The current environment suggests that investors should increase diversification in the risk-premia space.

BBVA Risk-Premia framework: key takeaways

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

- In this publication, we launch our **BBVA Risk-Premia framework**. The model is used to forecast six-month forward returns for each of the risk-premia strategies. See the appendix for the descriptions of indicators.
- We rank the strategies based on risk-adjusted returns. **The credit trend strategy currently ranks the best** in terms of volatility-adjusted returns. The main driver of the signal is our trend indicator based on the short- and medium-term Sharpe ratios of credit indices.
- Global FX carry currently screens the best based on absolute returns due to a still-high divergence between central bank rates globally. Tariff risk remains; hence we would wait for more clarity on US trade policy before entering FX carry strategies again.
- **The FX value strategies have seen the best returns recently** with among the highest performance trend scores, although this performance is expected to fade based on our framework. FX markets YTD have been driven by USD moves, with little dispersion elsewhere.

BBVA QIS risk-premia monitor

BBVA QIS risk-premia monitor

Source: Bloomberg and BBVA Global Markets Strategy

	Performance					Volatility 60 days	Correlation 3M					Correlation percentile				
	1-month	3-month	6-month	year-to-date	1-year		SPX	US10Y	60/40	USD	VIX	SPX	US10Y	60/40	USD	VIX
FX Global Value	1.5	1.1	- 3.8	3.9	- 4.9	9.3	28%	26%	48%	-71%	-21%	60%	67%	67%	18%	52%
FX LatAm Value	1.0	3.2	1.8	5.4	- 1.6	9.5	30%	-8%	21%	-27%	-21%	71%	33%	43%	30%	50%
FX LatAM Trend	- 0.3	- 1.1	- 3.1	- 1.3	- 2.8	2.3	-22%	7%	-10%	20%	21%	21%	58%	26%	77%	81%
Bond Trend	- 0.3	- 3.6	- 6.8	- 1.9	- 2.7	5.3	-12%	18%	-11%	12%	8%	61%	44%	57%	70%	36%
Credit Trend	- 0.4	- 0.2	1.8	0.3	- 1.1	2.2	42%	27%	50%	-28%	-18%	43%	80%	53%	22%	71%
FX Global Trend	- 0.5	- 1.5	- 3.5	- 2.3	- 3.0	2.8	-24%	-17%	-33%	52%	23%	19%	33%	20%	89%	83%
Credit Carry	- 0.5	- 0.4	2.1	0.1	2.3	2.0	41%	23%	45%	-20%	-12%	34%	83%	35%	39%	95%
Asset Allocator	- 0.8	- 0.7	0.0	0.3	0.7	3.4	37%	25%	44%	-23%	-14%	10%	47%	8%	49%	95%
FX LatAm Carry	- 2.0	0.3	2.8	0.2	- 6.0	8.4	14%	-37%	-17%	22%	-10%	22%	17%	4%	62%	87%
FX Global Carry	- 2.0	- 1.3	2.3	- 1.2	- 2.2	6.2	13%	-38%	-20%	27%	-6%	17%	20%	4%	65%	90%

Key takeaways:

- FX value strategies have performed best YtD given the high volatility in FX markets on the back of tariff risks since the US elections
- Carry and trend strategies are seeing the highest positive correlation to the VIX recently with the correlation turning positive in some instances driving the recent underperformance
- Credit strategies and asset allocation continue to demonstrate the lowest volatility since the start of the year. Our risk-premia framework suggests a positive outlook for credit-trend strategies. We are waiting for macro volatility to subside before increasing our conviction in cross-asset trend allocation.
- The FX carry strategy has underperformed over the past month on the back of tariff risks. There is still a lot of uncertainty about US trade policy, which makes it a challenging environment for FX carry trades.

Correlation monitor

BBVA QIS correlation monitor

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	20%	-2%	3%						
FX LatAM Trend	-15%	-13%	-6%	32%					
FX Global Trend	-18%	-10%	-5%	31%	91%				
Bond Trend	-21%	-4%	-5%	-13%	12%	18%			
Asset Alloc	41%	16%	18%	20%	0%	-3%	-3%		
FX LatAm Value	23%	43%	32%	-5%	-25%	-22%	1%	11%	
FX Global Value	33%	12%	9%	1%	-18%	-23%	-9%	22%	59%

Key takeaways:

- The average pairwise correlation between different risk-premia strategies has recently dropped to its lows. The current environment suggests that investors should increase diversification in the risk-premia space.
- The current geopolitical uncertainty is creating macro volatility, with x-asset vol remaining near its long-term median levels.

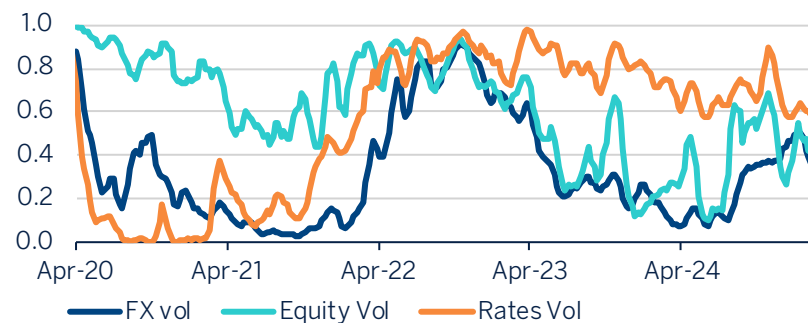
Average pairwise correlation near lows

Source: Bloomberg and BBVA Global Markets Strategy



Macro vol remains high

Source: Bloomberg and BBVA Global Markets Strategy





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FX risk premia

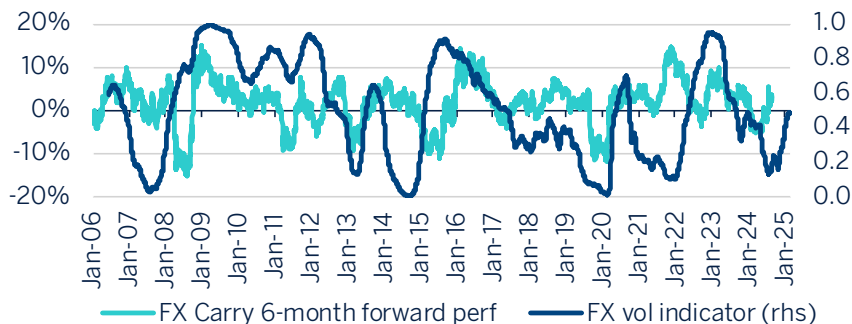
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Creating Opportunities

FX carry – global

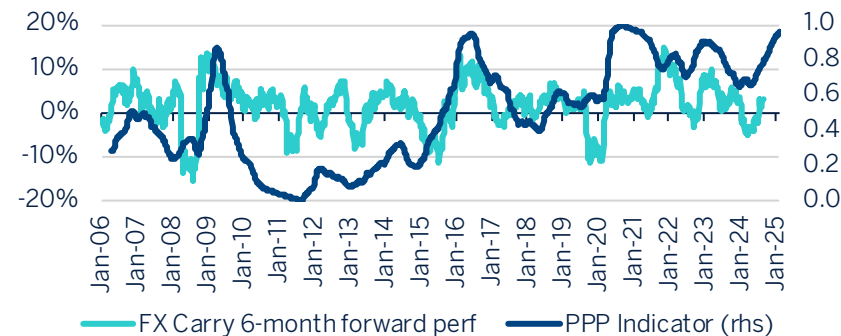
FX vol carry indicator

Source: Bloomberg and BBVA Global Markets Strategy



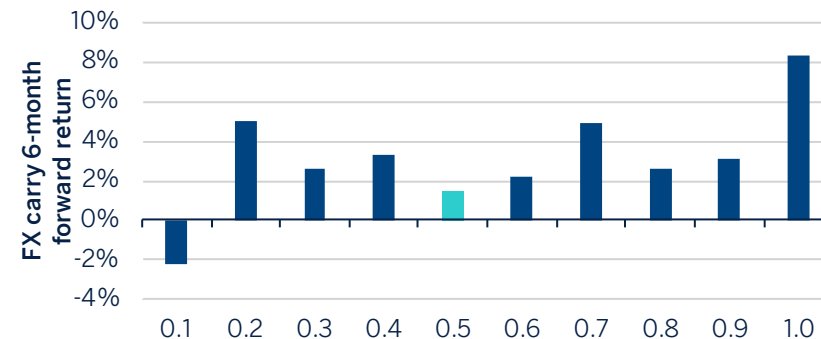
PPP indicator

Source: Bloomberg and BBVA Global Markets Strategy



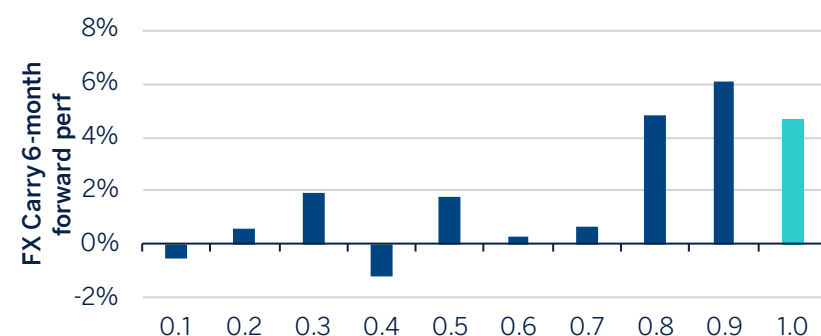
FX vol indicator suggests average returns

Source: Bloomberg and BBVA Global Markets Strategy



PPP indicator suggests strong returns

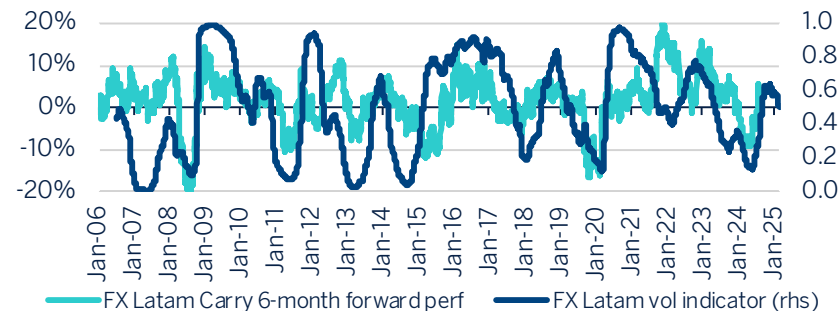
Source: Bloomberg and BBVA Global Markets Strategy



FX carry – LatAm

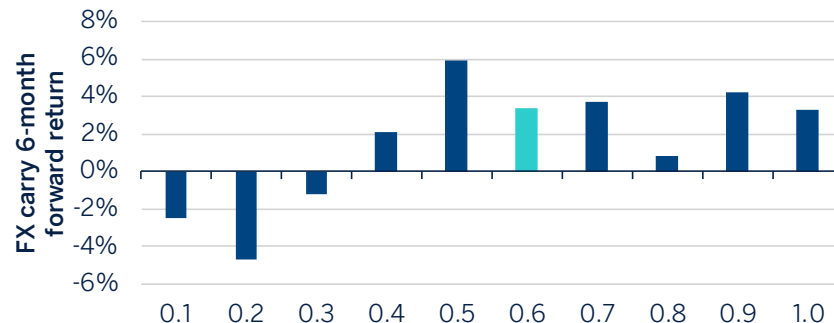
FX LatAm vol carry indicator

Source: Bloomberg and BBVA Global Markets Strategy



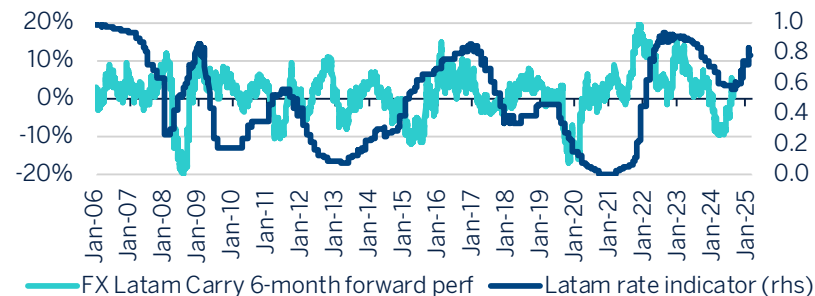
FX LatAm vol indicator suggests average returns

Source: Bloomberg and BBVA Global Markets Strategy



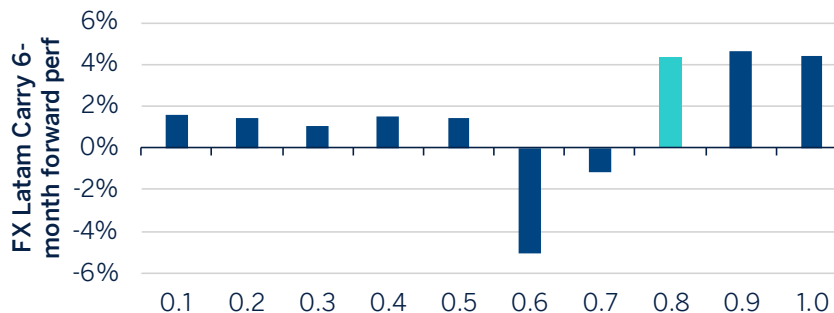
LatAm rate indicator

Source: Bloomberg and BBVA Global Markets Strategy



LatAm rate indicator suggests strong returns

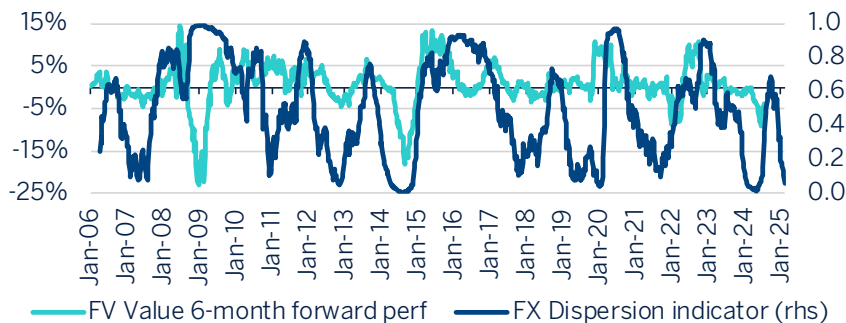
Source: Bloomberg and BBVA Global Markets Strategy



FX value – global

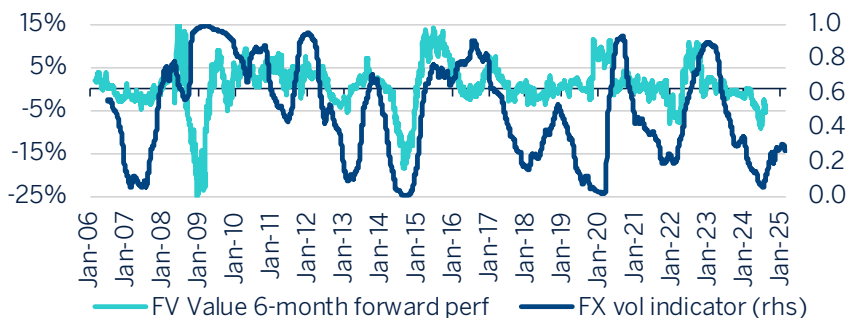
FX dispersion indicator

Source: Bloomberg and BBVA Global Markets Strategy



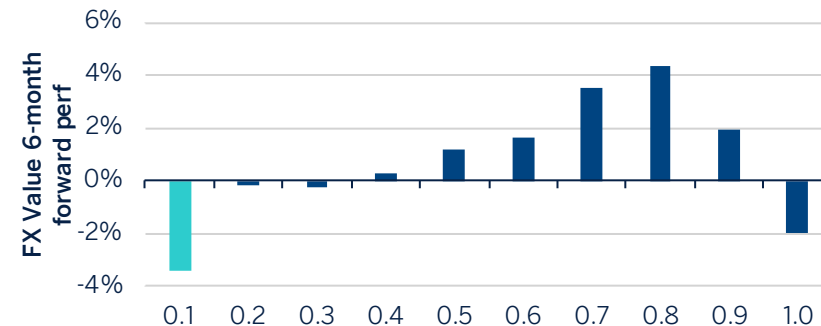
FX vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



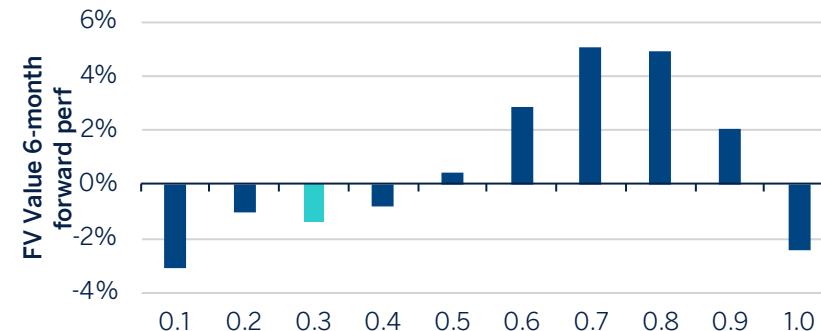
FX dispersion indicator suggests low returns

Source: Bloomberg and BBVA Global Markets Strategy



FX vol indicator suggests muted returns

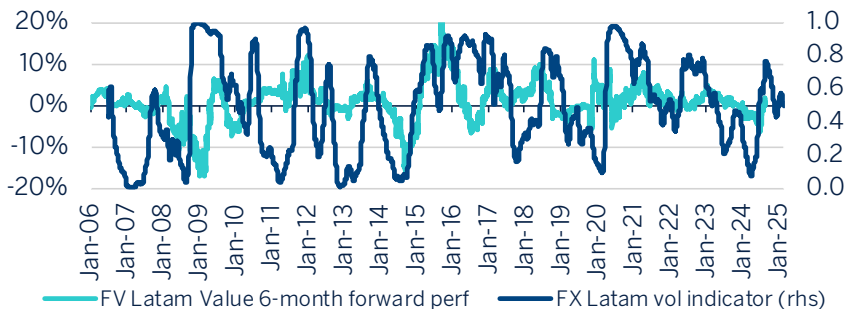
Source: Bloomberg and BBVA Global Markets Strategy



FX value – LatAm

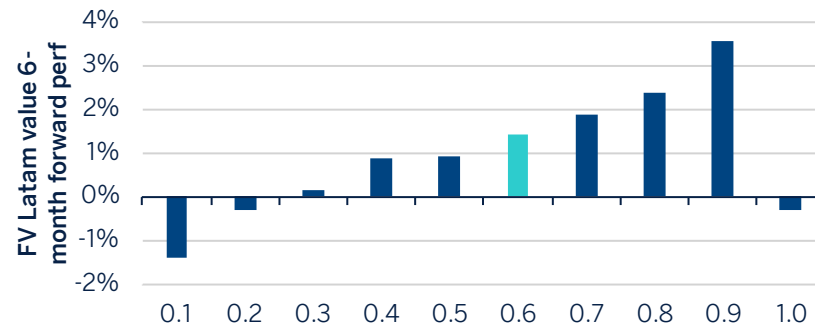
FX LatAm vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



FX LatAm vol indicator suggests average returns

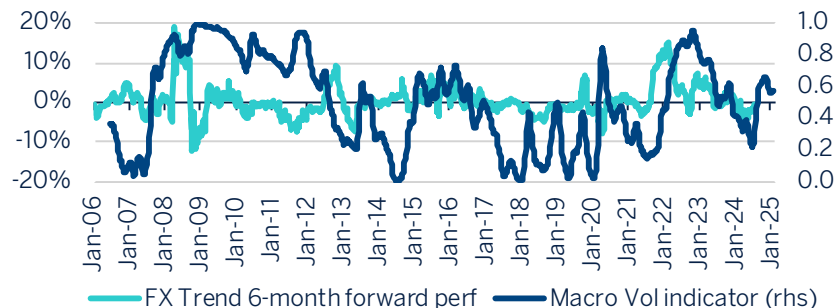
Source: Bloomberg and BBVA Global Markets Strategy



FX trend – global

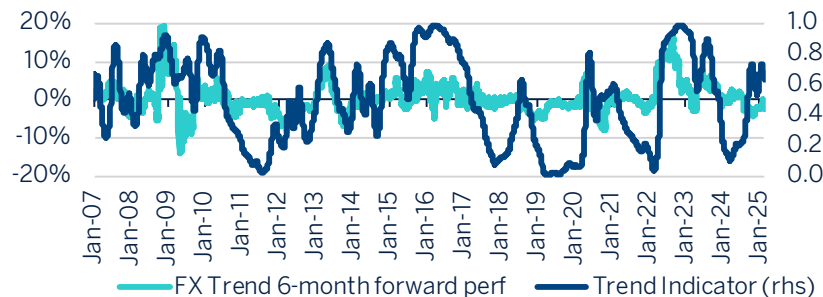
Macro vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



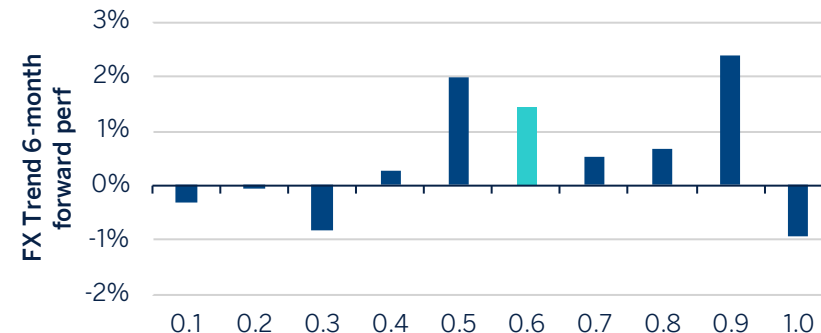
FX trend indicator

Source: Bloomberg and BBVA Global Markets Strategy



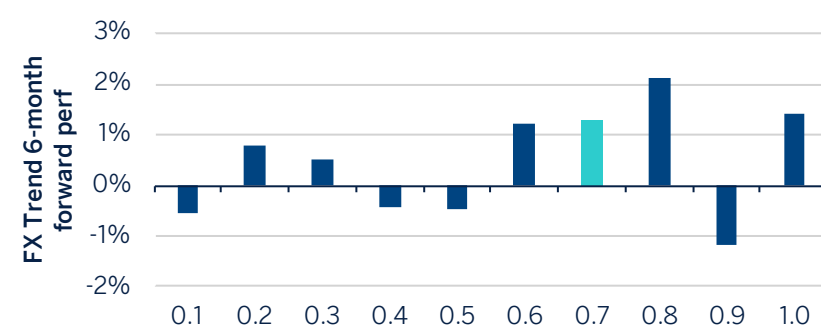
Macro vol indicator suggests average returns

Source: Bloomberg and BBVA Global Markets Strategy



FX trend indicator suggests above-average returns

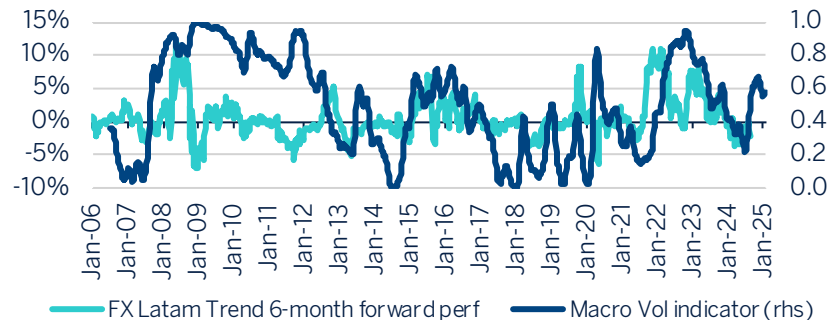
Source: Bloomberg and BBVA Global Markets Strategy



FX trend – LatAm

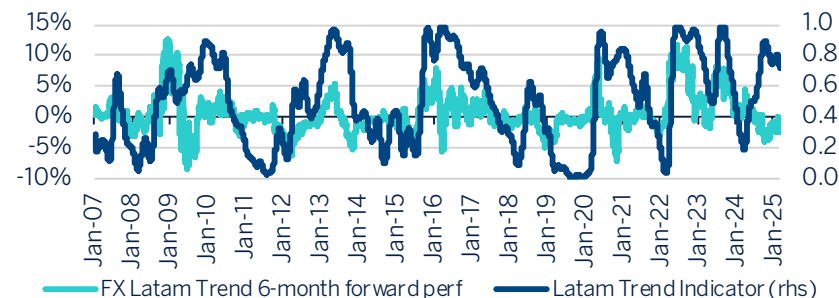
Macro vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



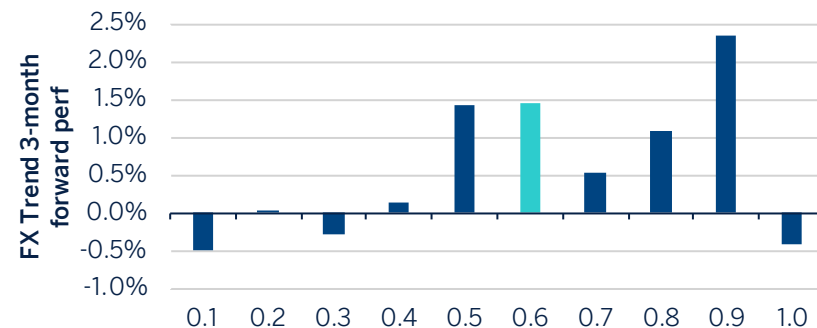
FX LatAm trend indicator

Source: Bloomberg and BBVA Global Markets Strategy



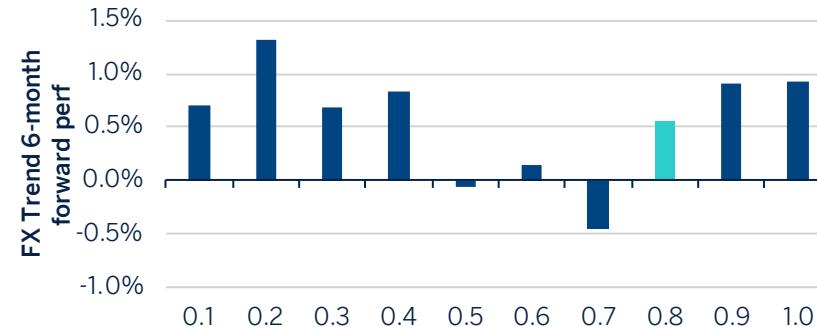
Macro vol indicator suggests average returns

Source: Bloomberg and BBVA Global Markets Strategy



FX LatAm trend indicator suggests above average returns

Source: Bloomberg and BBVA Global Markets Strategy





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Bond and credit risk premia

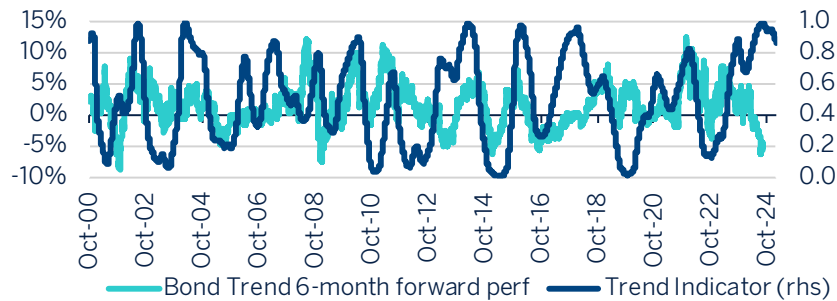
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Bond trend

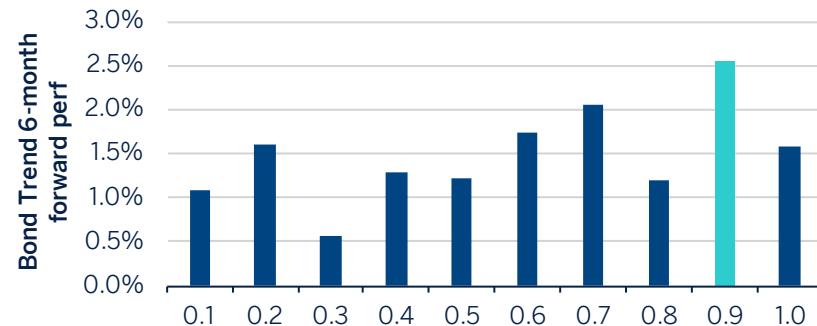
Bond trend indicator

Source: Bloomberg and BBVA Global Markets Strategy



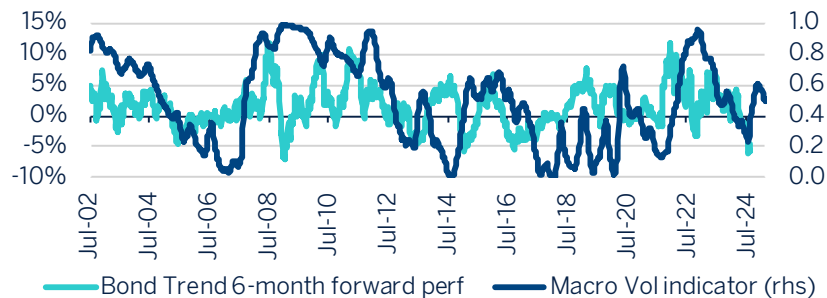
Bond trend indicator suggests strong returns

Source: Bloomberg and BBVA Global Markets Strategy



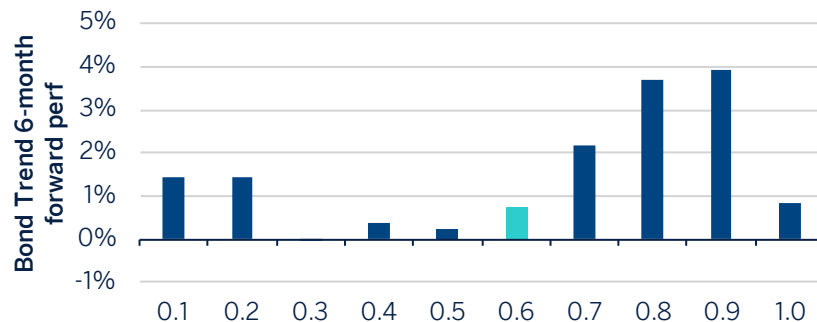
Macro vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



Macro vol indicator suggests average returns

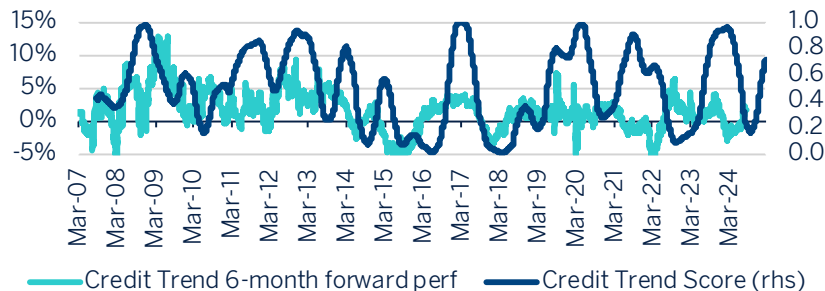
Source: Bloomberg and BBVA Global Markets Strategy



Credit trend

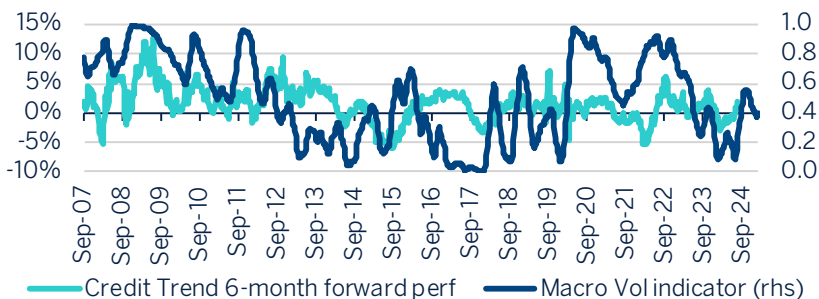
Credit-trend indicator

Source: Bloomberg and BBVA Global Markets Strategy



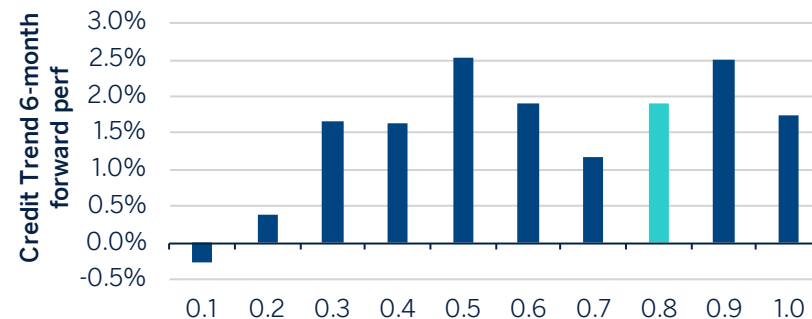
Macro vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



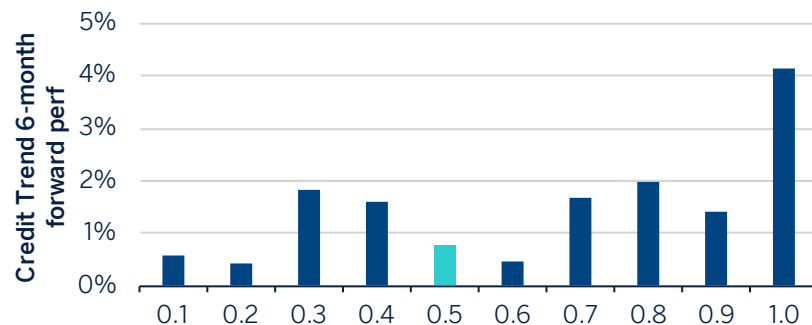
Credit-trend indicator suggests strong returns

Source: Bloomberg and BBVA Global Markets Strategy



Macro vol indicator suggests average returns

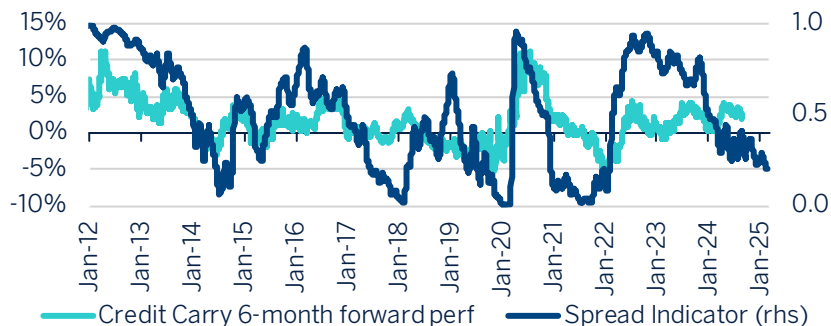
Source: Bloomberg and BBVA Global Markets Strategy



Credit carry

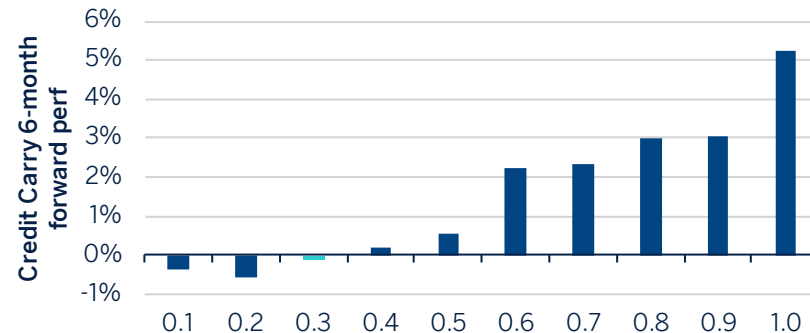
Credit-spread indicator

Source: Bloomberg and BBVA Global Markets Strategy



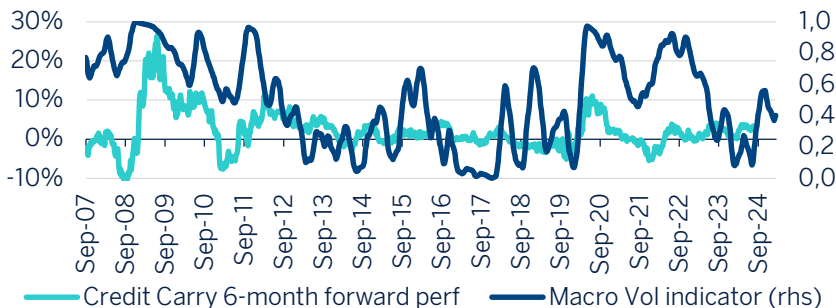
Credit-spread indicator suggests weak returns

Source: Bloomberg and BBVA Global Markets Strategy



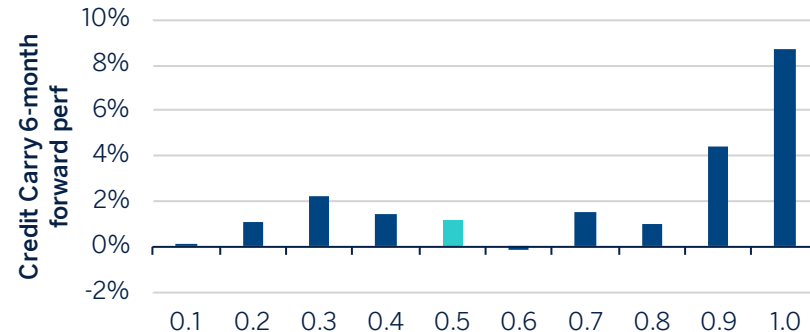
Macro vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



Macro vol indicator suggests average returns

Source: Bloomberg and BBVA Global Markets Strategy





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Asset allocator

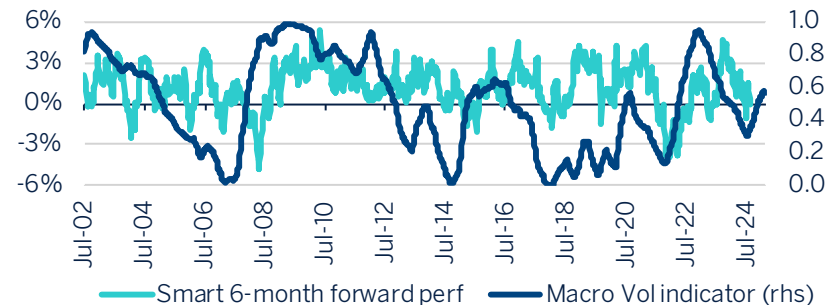
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Asset allocator – SMART

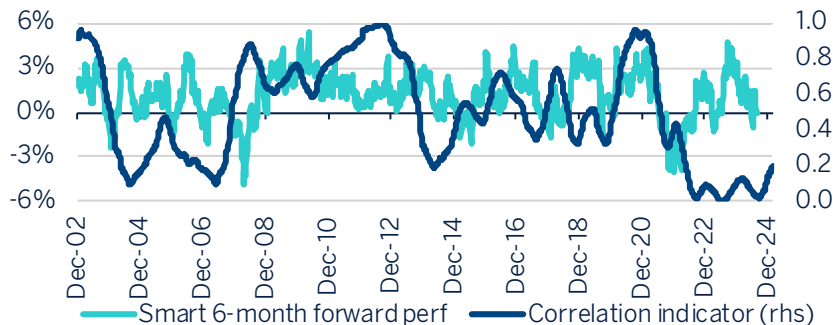
Macro vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



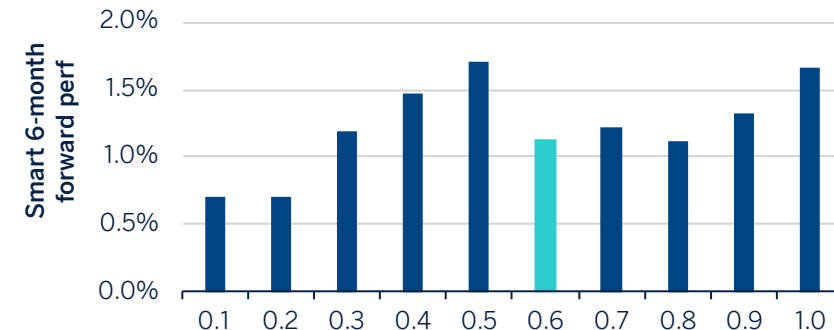
Correlation indicator

Source: Bloomberg and BBVA Global Markets Strategy



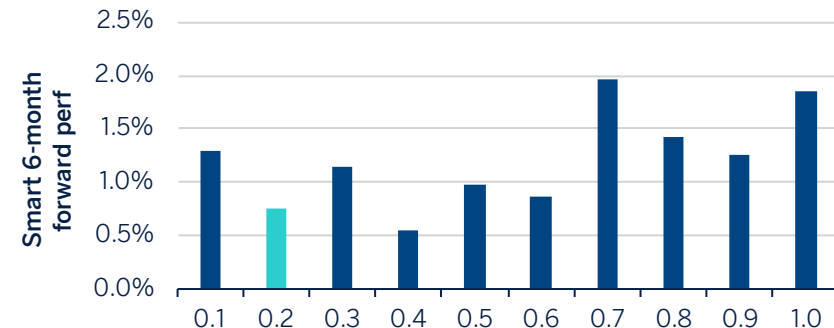
Macro vol indicator suggests average returns

Source: Bloomberg and BBVA Global Markets Strategy



Correlation indicator suggests muted returns

Source: Bloomberg and BBVA Global Markets Strategy





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Indicator description

Strategy	Indicator	Description
FX LatAm value	FX LatAm vol indicator	A high LatAm FX vol tends to drive strong performance over the next six months with weak performance just after a low vol regime. LatAm vol has climbed recently on tariff risks.
FX LatAm carry	FX LatAm vol indicator	A high LatAm FX vol tends to drive strong performance over the next six months with weak performance just after a low vol regime. LatAm vol has climbed recently on tariff risks.
FX LatAm carry	LatAm rate indicator	A high rate differential between LatAm and global central banks tends to be a key driver of forward LatAm carry returns. The current spread remains elevated; suggesting a positive outlook.
FX LatAM trend	LatAm trend indicator	A blend of short, median, long-term risk-adjusted returns. Trend strategies tend to have self-reinforcing effect, a strong historic trend tends to be a good predictor of a forward trend.
FX LatAM trend	Macro vol indicator	A combination of equity, rates and FX vol. A high vol tends to lead to strong performance over the next six months with weak performance just after low vol regime. The cross-asset vol has climbed recently, although remains near long-term median levels. The next move in vol could be lower, in our view.
FX global value	FX dispersion indicator	A higher dispersion between FX indices tends to drive more dislocation opportunities for FX value indices. The dispersion is currently low.
FX global value	FX vol indicator	A high FX vol tends to lead to strong performance over the next six months with weak performance just after low vol regime. FX vol has climbed recently, as we have just seen a regime shift.
FX global trend	Macro vol indicator	A combination of equity, rates and FX vol. A high vol tends to lead to strong performance over the next six months with weak performance just after low vol regime. The cross-asset vol has climbed recently, although remains near long-term median levels. The next move in vol could be lower, in our view.
FX global trend	Trend indicator	A blend of short, median, long-term risk-adjusted returns. Trend strategies tend to have a self-reinforcing effect, a strong historic trend tends to be a good predictor of forward trend.
FX global carry	FX vol indicator	A high FX vol tends to lead to strong performance over the next six months with weak performance just after low vol regime. The FX vol has climbed recently as we have just seen a regime shift.
FX global carry	PPP indicator	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.

Indicator description

Strategy	Indicator	Description
Credit trend	Credit trend score	A blend of short, median, long-term risk-adjusted returns. Trend strategies tend to have a self-reinforcing effect, a strong historic trend tends to be a good predictor of the future trend.
Credit trend	Macro vol indicator	A combination of equity, rates and FX vol. A high vol tends to lead to strong performance over the next six months with weak performance just after low vol regime. The cross-asset vol has climbed recently, although remains near long-term median levels. The next move in vol could be lower, in our view.
Credit carry	Macro vol indicator	A combination of equity, rates and FX vol. A high vol tends to lead to strong performance over the next six months with weak performance just after a low vol regime. The cross-asset vol has climbed recently, although remains near long-term median levels. The next move in vol could be lower, in our view.
Credit carry	Spread indicator	The HY/IG spread tends to be a good indicator of future return. A high spread tends to drive interesting opportunities for credit carry strategies.
Bond trend	Macro vol indicator	A combination of equity, rates and FX vol. A high vol tends to lead to strong performance over the next six months with weak performance just after a low vol regime. The cross-asset vol has climbed recently, although remains near long-term median levels. The next move in vol could be lower, in our view.
Bond trend	Trend indicator	A blend of short, median, long-term risk-adjusted returns. Trend strategies tend to have a self-reinforcing effect, a strong historic trend tends to be a good predictor of the future trend.
Asset allocation	Correlation indicator	Bond vs. equity correlation. A high positive correlation over recent years has been associated with weak returns in asset allocation strategies. We believe we are entering a regime of negative bond equity correlation that should once again be favourable for asset allocation.
Asset allocation	Macro vol indicator	A combination of equity, rates and FX vol. A high vol tends to lead to strong performance over the next six months with weak performance just after a low vol regime. The cross-asset vol has climbed recently, although remains near long-term median levels. The next move in vol could be lower, in our view.

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