



Corporate &
Investment Banking

BBVA Global Risk Premia Strategy

Fixed Income Risk Premia

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Creating Opportunities



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BBVA Global Risk Premia Strategy

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Summary

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After Liberation Day

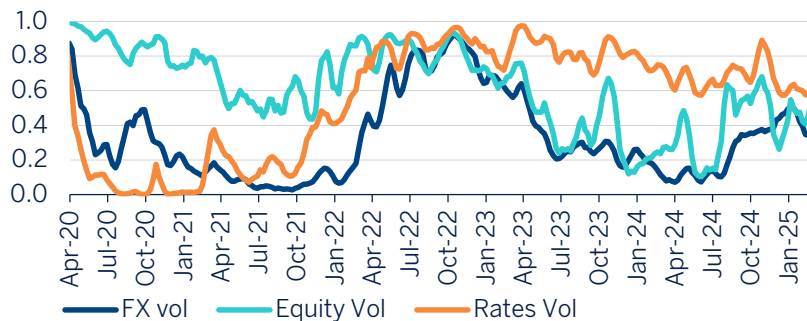
- **Trump put in play:** For the past two decades we have often observed the Fed put in play after every 20% correction in equity markets. Given that inflation is still above target and has the potential to pick up again on the back of US tariffs, the Fed put was clearly missed. In their latest communiques, central bankers suggested that they are happy to see the path of global trade show up in growth and inflation data before reacting. In the absence of the Fed put, financial markets got some reprieve from the Trump put, which led to a recovery in risk assets. That said, the redefining of the global trade landscape has created a short-term approach in the market, with policy headlines still driving massive volatility. With the lack of short-term visibility, trend strategies have continued to underperform over the past month and the correction in CTA strategies has reached c.10%, similar levels to the summer of last year.
- **US Liberation Day:** It ended up being a day when global investors liberated themselves from the view of US exceptionalism. Since then, the trend of a weak US dollar has intensified with equity indices and bonds both down, which points to significant outflows from USD-denominated assets. Historic crisis correlations broke down at the start of the month. Global risk-off sentiment is typically accompanied by a strong USD and the US acting as a safe haven, but this did not happen. Europe actually proved to be more of a safe haven, much as we expected (see [QIS Tactical: European exceptionalism](#)). We believe global investors remain overweight US assets and markets are currently in the process of a global reallocation away from the US.
- **The breakdown in the correlation between equities and bonds:** The equity sell-off this month was driven by policy and not the economy. As a result, the typical negative correlation we see during market stress was missing, which made it challenging for investors as there was almost nowhere to hide. Gold proved to be the only safe-haven asset class, which helped our asset allocator strategy outperform benchmarks. Defensive and equity hedging strategies performed well as a result.
- **Contrarian trade:** BBVA's FX carry strategies have been the worst performing over the past month. This has mainly been driven by the fact that carry strategies tend to be short volatility in nature, and over the past month we saw macro volatility jump back to the highs of 2022. After Liberation Day the VIX jumped to highs only seen during the COVID and the Global Financial Crisis. These two instances saw a subsequent deep global recession. Although recession risks have increased in the current environment, it is still not our base case. This suggests entering strategies with short volatility characteristics could be profitable in the short term.
- **Risk-premia recap:** We highlighted the credit trend strategy as a trade of the month in our last publication. Given the global risk-off sentiment since then, which we did not expect, all trend strategies have underperformed over the past month. We believe markets will need some clarity on US trade policy before trend strategies come back into favour. FX value strategy, particularly in LatAm, continued to deliver strong returns over the past month. The strong performance of our value strategies was highlighted in our last risk-premia publication, even though most of the positive performance was driven by a 5% move after US Liberation Day.

Trade of the month: FX carry

- Contrarian trade:** BBVA's FX carry strategies have been the worst performing over the past month. This has been mainly driven by the fact that carry strategies tend to be short volatility in nature and over the past month we saw macro volatility jump back to the highs of 2022. Since Liberation Day the VIX jumped to highs only seen during the COVID Global Financial crises. These two instances saw a subsequent deep global recession. Although recession risks have increased in the current environment, it is still not our base case. This suggests entering strategies with short volatility characteristics could be profitable in the short term.
- Preference for LatAm:** Within carry strategies we have a preference for the LatAm carry strategy. This is particularly the case given the fact that the US tariff announcements did not include Canada and Mexico. We believe this is likely to be a short-term reprieve for the respective two economies and could be the best region to consider reinstating carry strategies. BBVA's risk-premia framework identifies LatAm FX realised vol and rates differential as key leading indicators for FX LatAm carry strategies. Both these indicators are currently signalling strong returns based on a six-month forward basis.
- Global reallocation:** We believe we have entered a global asset reallocation cycle away from US assets to the rest of the world, which is likely to continue weighing on the USD. The flow momentum should be supportive for the onset of global FX carry trades.

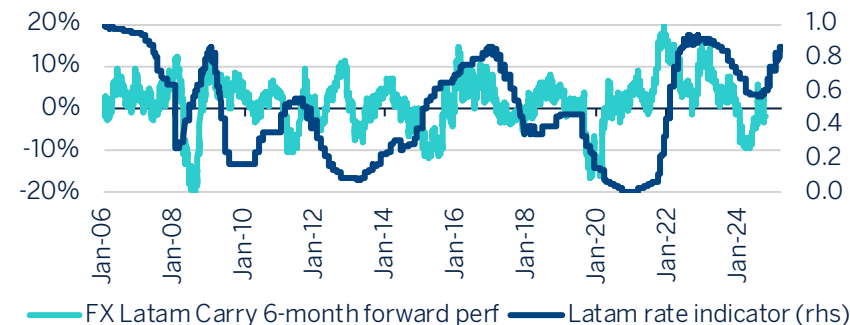
Macro vol jumped to stressed levels

Source: Bloomberg and BBVA Global Markets Strategy



LatAm rate indicator

Source: Bloomberg and BBVA Global Markets Strategy



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 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 “modest”, “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 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 7 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.
- **Drivers of risk-premia strategies:** On slides 10 & 11 we also analyse the recent drivers of each risk-premia strategy. The US dollar and equity volatility seem to be the key drivers of performance in many of our risk-premia strategies at the moment. The average pairwise correlation between different risk-premia strategies has remained near its lows, indicating the benefits of diversification.

BBVA Risk-Premia framework: key takeaways

BBVA Risk-Premia framework

Source: Bloomberg and BBVA Global Markets Strategy

	Lead indicators		Leading Score	Momentum Score
BBVA FX Global Carry	PPP Indicator	FX vol indicator	100%	11%
BBVA FX LatAm Carry	Latam rate indicator	FX Latam vol indicator	89%	22%
BBVA Credit Carry USD Index	Spread Indicator	Macro Vol indicator	78%	44%
BBVA Credit Trend USD Index	Credit Trend Score	Macro Vol indicator	67%	56%
SMART	Correlation indicator	Macro Vol indicator	56%	78%
BBVA G2 Bond Fut USD	Macro Vol indicator	Trend Indicator	44%	0%
BBVA FX LatAm Trend	Macro Vol indicator	Latam trend Indicator	33%	89%
BBVA FX LatAm RV USD	FX Latam vol indicator		22%	100%
BBVA FX Global Trend USD	Macro Vol indicator	Trend Indicator	11%	33%
BBVA FX Global RV USD	FX vol indicator	FX Dispersion indicator	0%	67%

- In this publication, we are updating 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 FX carry strategy currently ranks the best** in terms of volatility-adjusted returns. The main driver of the signal is our volatility indicator, which suggests investors enter carry trades after periods of high volatility.
- Global FX carry ranked high last month but we suggested investors remain cautious ahead of potential US tariff announcements. Given that this major catalyst is behind us, we believe FX strategies could perform well, at least until the 90-day window expires.
- **The FX value strategies have seen the best returns recently**, although this performance is expected to fade based on our framework. FX markets Ytd have been driven by USD moves, with little dispersion elsewhere.

Indicator description

Indicator description

Source: Bloomberg and BBVA Global Markets Strategy

Strategy	Indicator	Description
FX global carry	FX vol indicator	BBVA FX vol carry indicator is calculated based on US dollar realised volatility. We find USD vol tends to lead FX carry strategy performance over the next six months with weak performance just after low vol regime. The USD vol has climbed recently on tariff risks. Currently our indicator forecasts average returns
FX global carry	PPP indicator	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	BBVA FX LatAm vol carry indicator is calculated based on MXN and BRL realised volatility. We find 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	BBVA LatAm rate indicator is based on differential between LatAm and global central bank interest rates. The current spread remains elevated; suggesting a positive outlook.
FX global value	FX dispersion indicator	BBVA FX dispersion indicator is based on 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 muted returns.
FX global value	FX vol indicator	BBVA FX vol value indicator is based realised volatility of 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 a positive signal for value strategies.
FX LatAm value	FX LatAm vol indicator	BBVA FX LatAm vol value indicator is based realised volatility of 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 our on Liberation day tariff announcement.
FX global trend	Macro vol indicator	BBVA Macro vol indicator is derived from a combination of 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 neutral signal for trend strategies
FX global trend	Trend indicator	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 forward trend.
FX LatAM trend	Macro vol indicator	BBVA Macro vol indicator is derived from a combination of 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 neutral signal for trend strategies
FX LatAM trend	LatAm trend indicator	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 forward trend.

Indicator description

Indicator description

Source: Bloomberg and BBVA Global Markets Strategy

Strategy	Indicator	Description
Bond trend	Trend indicator	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 forward trend.
Bond trend	Macro vol indicator	BBVA Macro vol indicator is derived from a combination of 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 neutral signal for trend strategies
Credit trend	Credit trend score	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 forward trend.
Credit trend	Macro vol indicator	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 climbed recently to crisis levels, although retraced quite quickly and as a result still suggests a neutral signal for trend strategies
Credit carry	Spread indicator	BBVA spread indicator is based on HY/IG spread. A high spread tends to drive interesting opportunities for credit carry strategies. Recent spike in HY/IG spreads makes the strategy look attractive but volatility of spreads makes entry point difficult
Credit carry	Macro vol indicator	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 climbed recently to crisis levels, although retraced quite quickly and as a result still suggests a neutral signal for trend strategies
Asset allocation	Macro vol indicator	BBVA Macro vol indicator is derived from a combination of 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 neutral signal for trend strategies
Asset allocation	Correlation indicator	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 that should once again be favourable for this strategy.

BBVA's QIS risk-premia monitor

BBVA QIS risk-premia monitor

Source: Bloomberg and BBVA Global Markets Strategy

	Performance							Volatility 60 days	Correlation 3M					Correlation percentile				
	month-to-date	1-month	3-month	6-month	year-to-date	1-year			SPX	US10Y	60/40	USD	VIX	SPX	US10Y	60/40	USD	VIX
FX LatAm Value	1.0	1.5	4.7	1.6	6.7	-0.2		11.4	15%	-30%	3%	39%	-6%	38%	6%	21%	98%	73%
FX LatAM Trend	0.5	0.6	-0.2	-0.3	-0.9	-3.4		2.3	28%	-17%	28%	29%	-7%	70%	27%	67%	89%	59%
FX Global Value	-0.3	0.3	3.9	2.9	3.8	-4.5		9.8	13%	-9%	11%	5%	-12%	27%	23%	17%	84%	71%
FX Global Trend	-0.2	-0.1	-1.7	-1.4	-2.5	-4.7		2.7	41%	-35%	31%	53%	-25%	81%	11%	70%	92%	40%
Asset Allocator	-1.1	-0.9	-0.5	-1.8	-0.8	-0.4		4.0	-20%	44%	-9%	-25%	8%	0%	73%	0%	44%	100%
Credit Trend	-0.8	-1.2	-1.2	-0.8	-1.3	-2.1		2.7	66%	-21%	69%	20%	-57%	89%	33%	92%	79%	12%
Credit Carry	-1.3	-1.7	-2.0	-1.2	-2.0	-2.0		3.2	21%	-11%	24%	-17%	-38%	10%	51%	13%	41%	48%
Bond Trend	-1.6	-1.7	-4.3	-6.6	-3.9	-6.6		5.7	-37%	60%	-33%	8%	32%	24%	55%	26%	58%	76%
FX Global Carry	-3.2	-3.2	-4.0	-2.6	-3.2	-6.8		7.3	-5%	-17%	-17%	18%	-11%	5%	49%	4%	51%	84%
FX LatAm Carry	-2.9	-3.5	-3.6	-2.0	-1.8	-10.2		9.9	-3%	-13%	-12%	2%	-10%	5%	51%	5%	32%	86%

Key takeaways:

- FX value strategy, particularly in LatAm, continued to deliver strong returns over the past month. The strong performance of our value strategies was highlighted in our last risk-premia publication. The US Liberation Day was a key trigger for this strategy, delivering 5% returns on the next four business days after the tariff announcement. Our leading indicators are suggesting caution for FX value trades going forward.
- Carry strategies were the worst performers of the month driven mainly by the sharp pick-up in macro volatility. Carry strategies tend to be short volatility and, as a result, the risk of global macro volatility has been a headwind for this trade. Given the sharp decline in macro volatility over the past week we believe FX carry strategy might be a good one to own in the near term.
- Trend strategies were the second-worst-performing post-carry strategies where, once again, the rise in global disruption stemming from a potential global trade war is not making the macro environment very conducive for any trends to persist. The FX trend was an outlier, as the tariff announcement saw continuation of the weak USD trend observed since January.

Correlation monitor

BBVA's 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	21%	-2%	3%						
FX LatAm Trend	-15%	-13%	-6%	32%					
FX Global Trend	-17%	-9%	-5%	31%	91%				
Bond Trend	-21%	-4%	-5%	-12%	12%	17%			
Asset Alloc	40%	16%	18%	20%	-1%	-3%	0%		
FX LatAm Value	22%	43%	31%	-6%	-25%	-22%	1%	11%	
FX Global Value	32%	12%	8%	1%	-18%	-23%	-9%	22%	59%

Key takeaways:

- Since Liberation Day the VIX has jumped to highs only seen during the COVID and the Global Financial Crisis. The current market environment remains challenging, and diversification strategies are reaping the benefits.
- Risk-off environments typically lead to increased correlation, even though the average pairwise correlation between different risk-premia strategies has remained near its lows. The current environment suggests that investors should increase diversification in the risk-premia space.

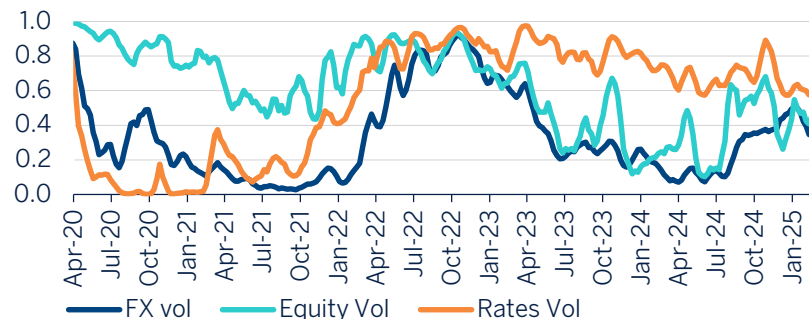
Average pairwise correlation near lows

Source: Bloomberg and BBVA Global Markets Strategy



Macro vol jumped to stressed levels

Source: Bloomberg and BBVA Global Markets Strategy





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FX risk premia

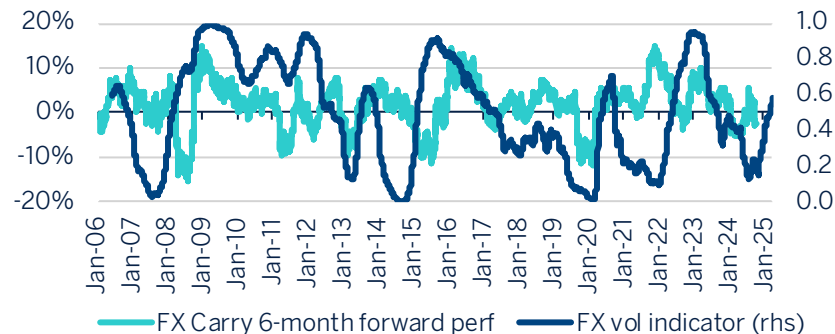
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FX carry – global

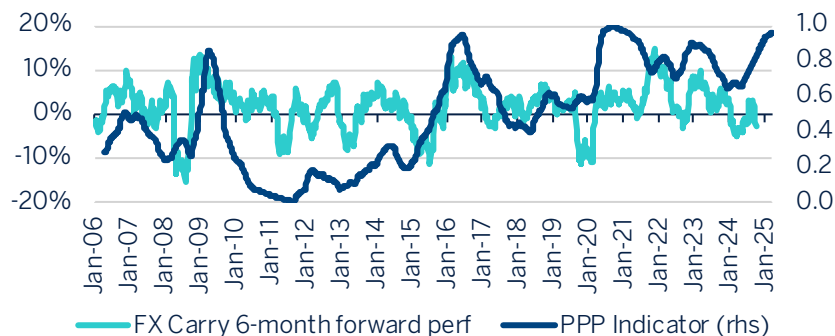
FX vol carry indicator

Source: Bloomberg and BBVA Global Markets Strategy



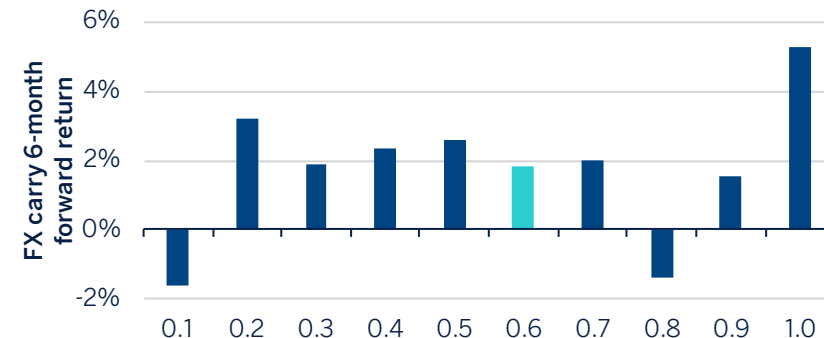
PPP indicator

Source: Bloomberg and BBVA Global Markets Strategy



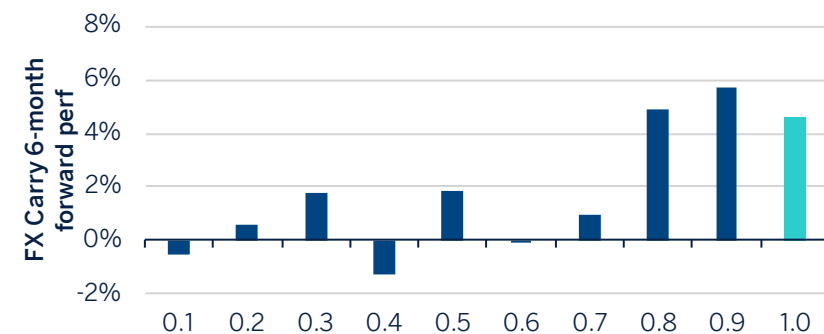
The FX vol indicator suggests average returns

Source: Bloomberg and BBVA Global Markets Strategy



The PPP indicator suggests strong returns

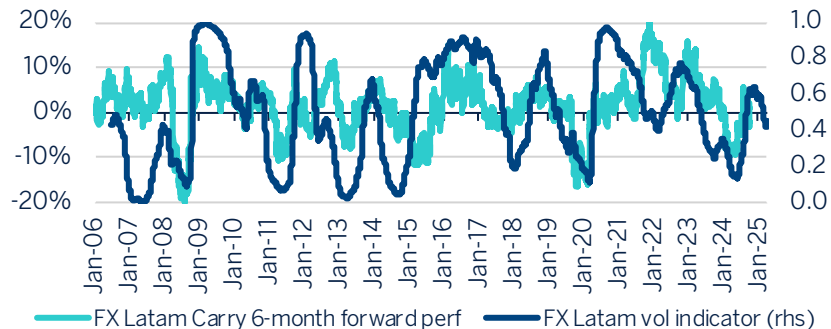
Source: Bloomberg and BBVA Global Markets Strategy



FX carry – LatAm

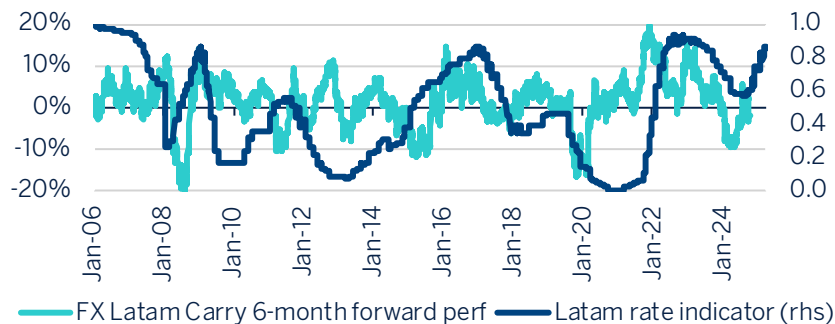
FX LatAm vol carry indicator

Source: Bloomberg and BBVA Global Markets Strategy



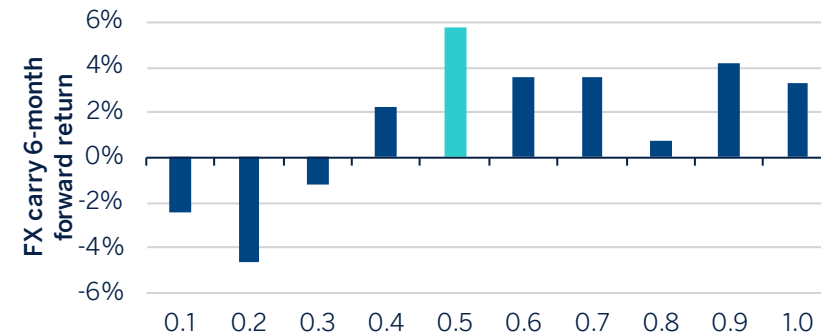
LatAm rate indicator

Source: Bloomberg and BBVA Global Markets Strategy



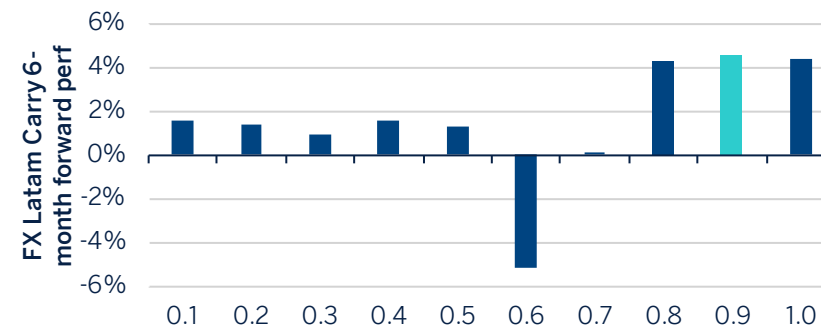
The FX LatAm vol indicator suggests strong returns

Source: Bloomberg and BBVA Global Markets Strategy



The LatAm rate indicator suggests strong returns

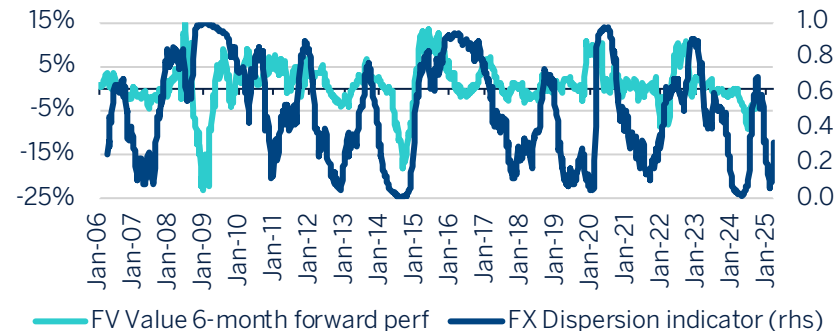
Source: Bloomberg and BBVA Global Markets Strategy



FX value – global

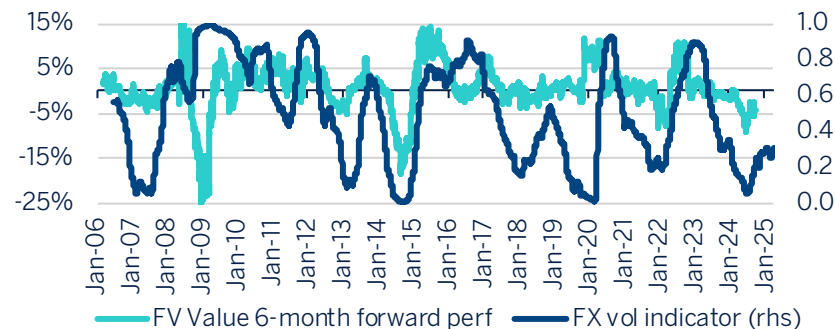
FX dispersion indicator

Source: Bloomberg and BBVA Global Markets Strategy



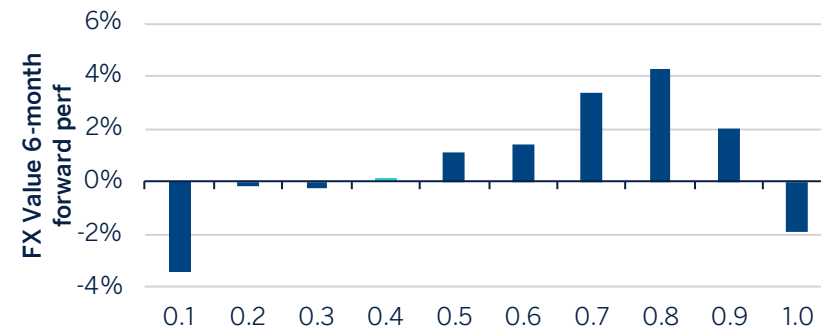
FX vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



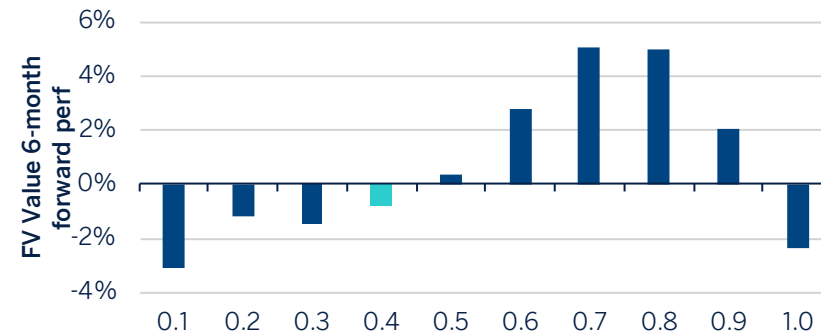
The FX dispersion indicator suggests only modest returns

Source: Bloomberg and BBVA Global Markets Strategy



FX vol indicator suggests only modest returns

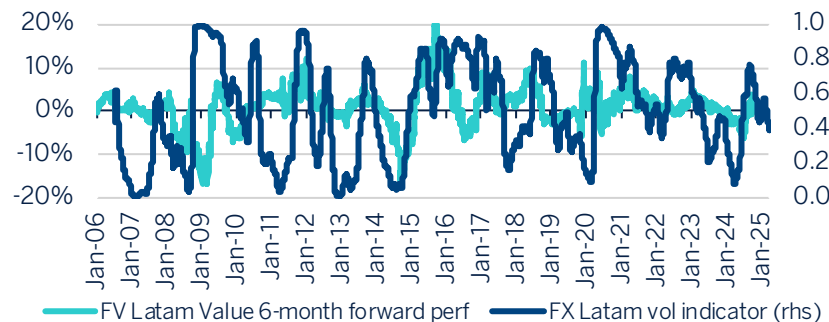
Source: Bloomberg and BBVA Global Markets Strategy



FX value – LatAm

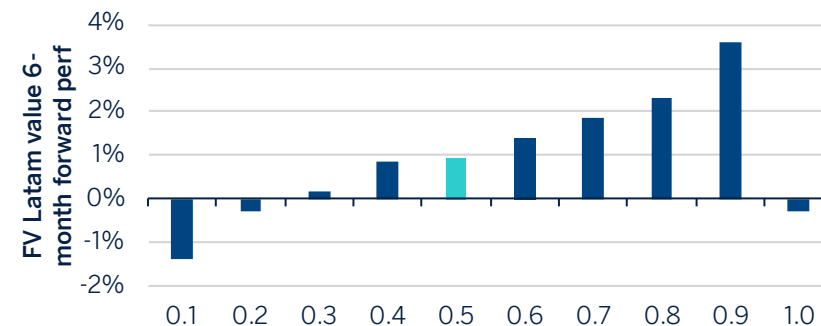
FX LatAm vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



The FX LatAm vol indicator suggests average returns

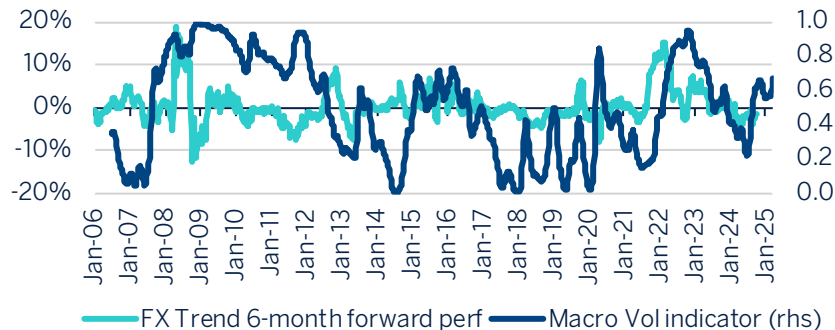
Source: Bloomberg and BBVA Global Markets Strategy



FX trend – global

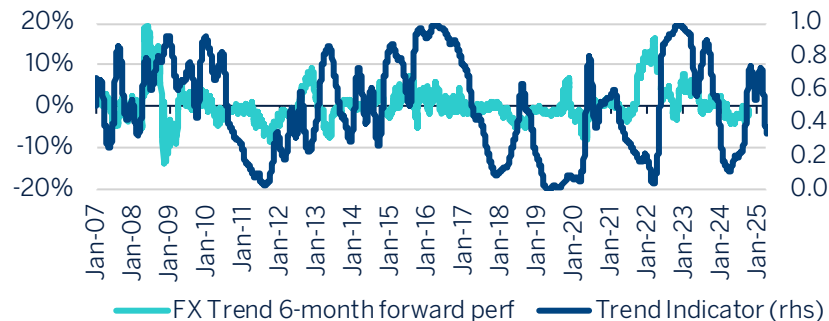
Macro vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



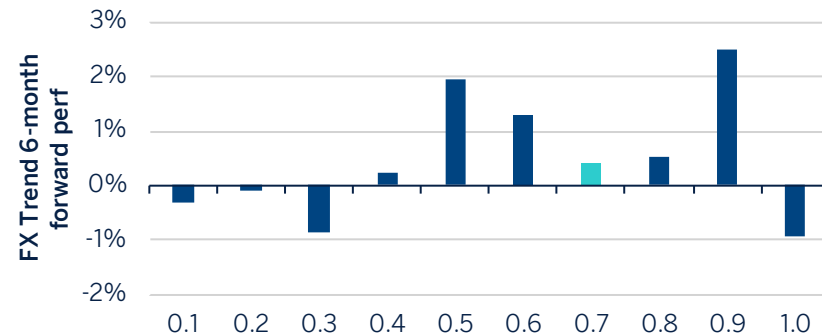
FX trend indicator

Source: Bloomberg and BBVA Global Markets Strategy



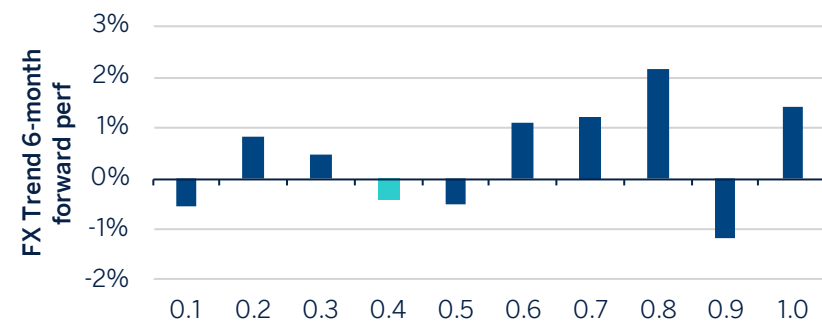
The macro vol indicator suggests low returns

Source: Bloomberg and BBVA Global Markets Strategy



The FX trend indicator suggests low returns

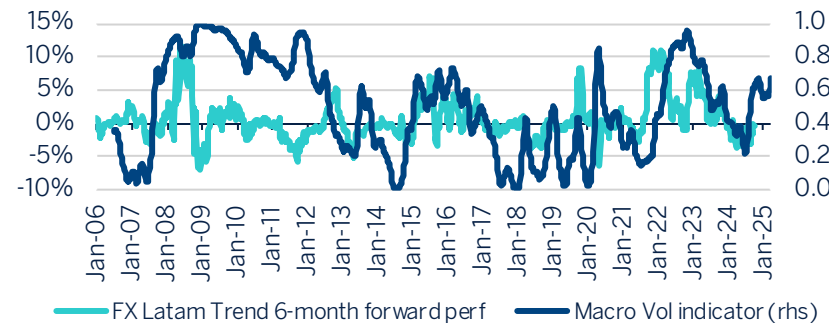
Source: Bloomberg and BBVA Global Markets Strategy



FX trend – LatAm

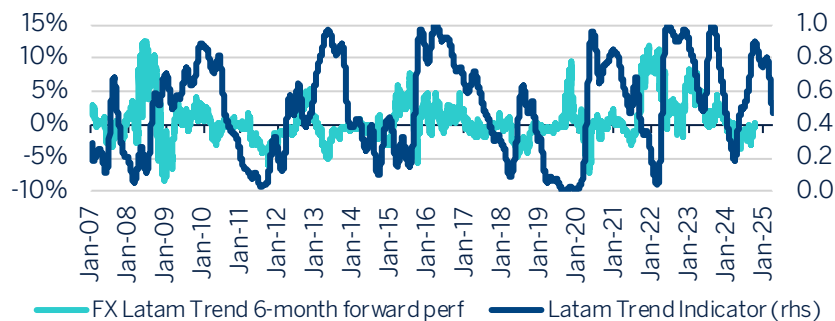
Macro vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



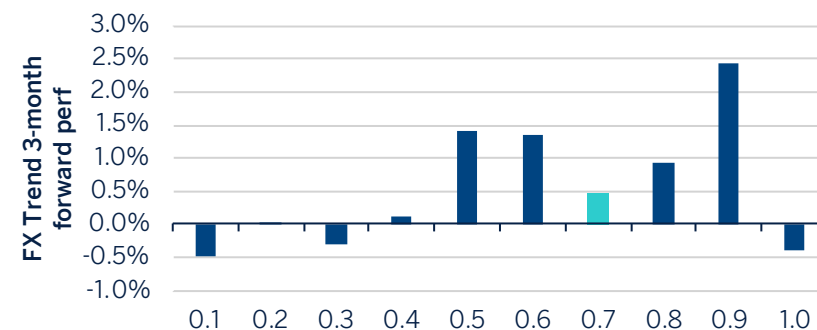
FX LatAm trend indicator

Source: Bloomberg and BBVA Global Markets Strategy



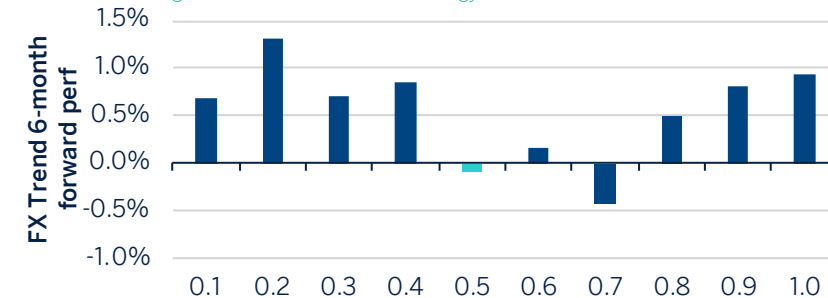
The macro vol indicator suggests low returns

Source: Bloomberg and BBVA Global Markets Strategy



The FX LatAm trend indicator suggests better than low returns

Source: Bloomberg and BBVA Global Markets Strategy





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Bond and credit risk premia

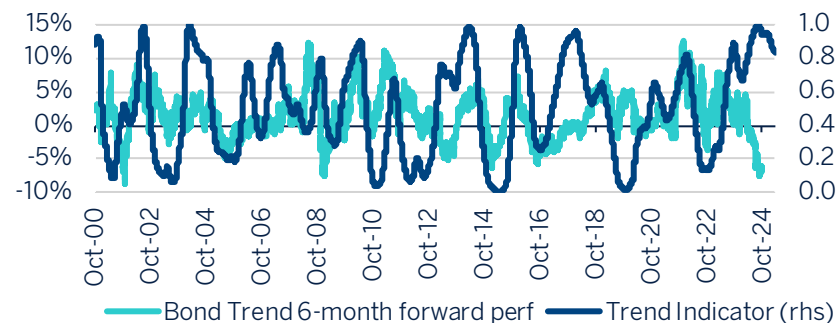
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Bond trend

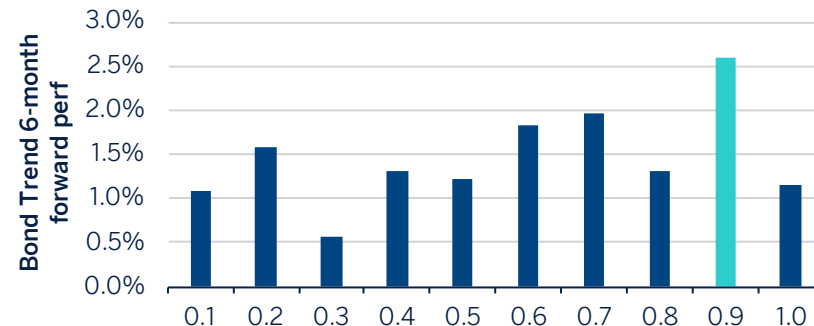
Bond trend indicator

Source: Bloomberg and BBVA Global Markets Strategy



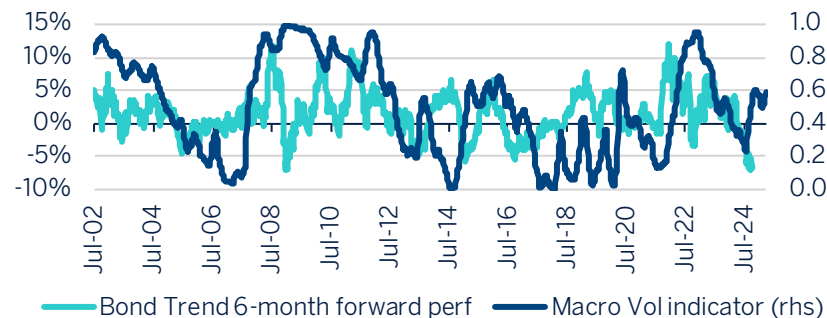
The Bond trend indicator suggests strong returns

Source: Bloomberg and BBVA Global Markets Strategy



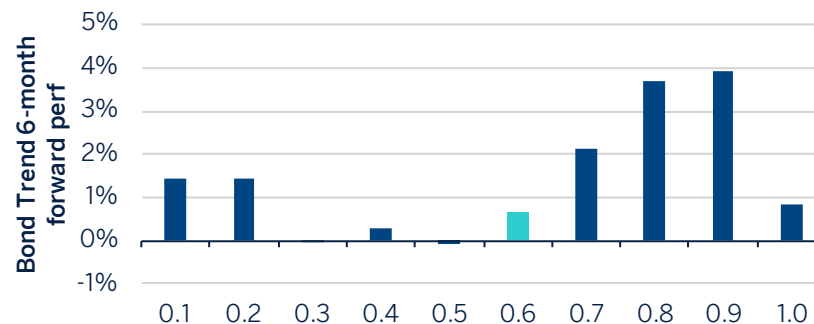
Macro vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



The macro vol indicator suggests average returns

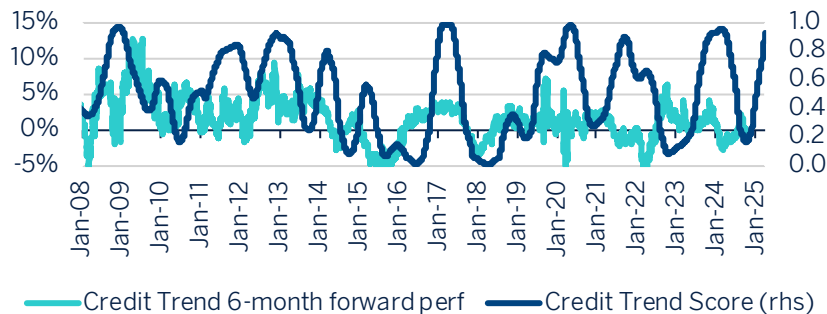
Source: Bloomberg and BBVA Global Markets Strategy



Credit trend

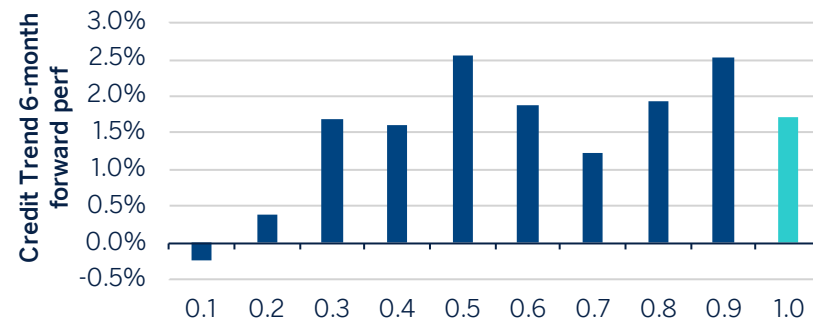
Credit-trend indicator

Source: Bloomberg and BBVA Global Markets Strategy



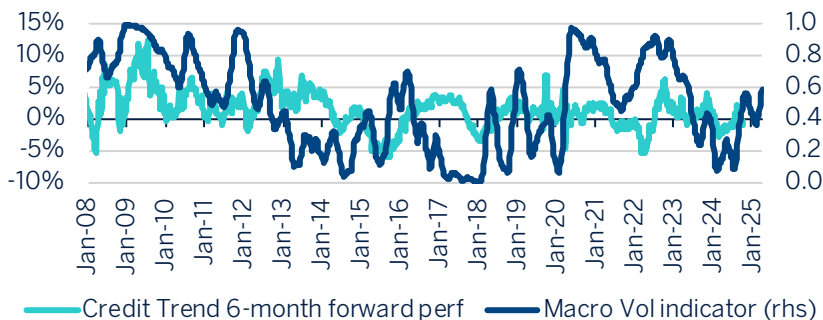
The credit-trend indicator suggests strong returns

Source: Bloomberg and BBVA Global Markets Strategy



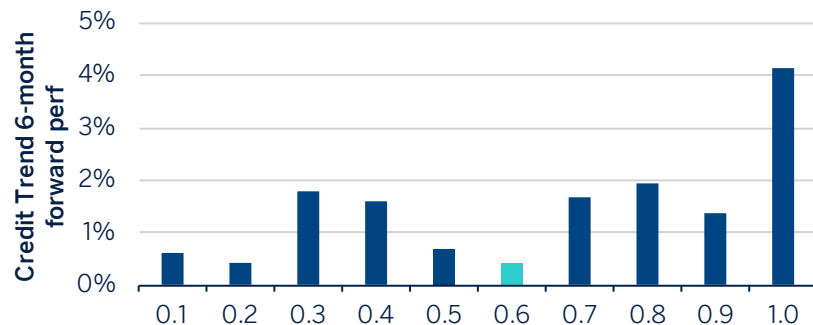
Macro vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



The macro vol indicator suggests average returns

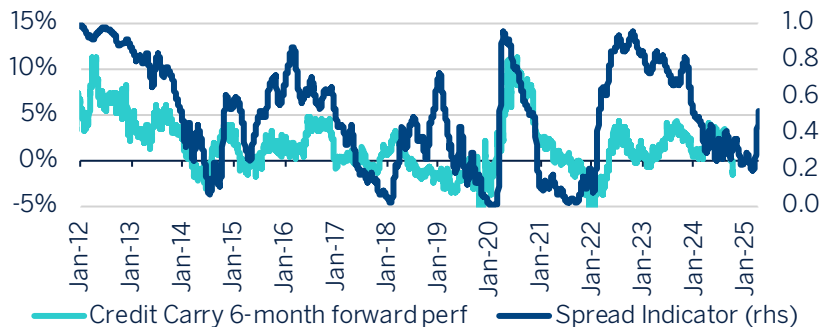
Source: Bloomberg and BBVA Global Markets Strategy



Credit carry

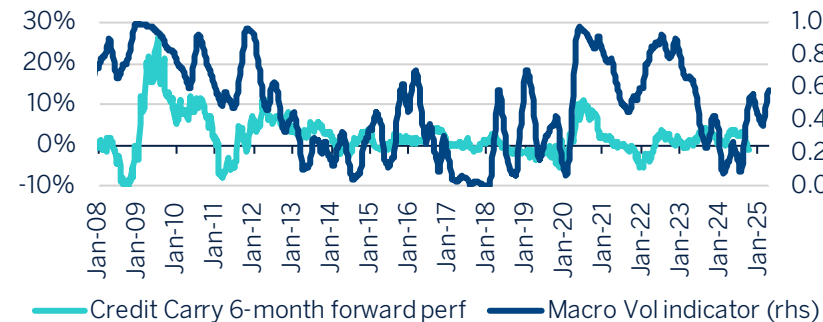
Credit-spread indicator

Source: Bloomberg and BBVA Global Markets Strategy



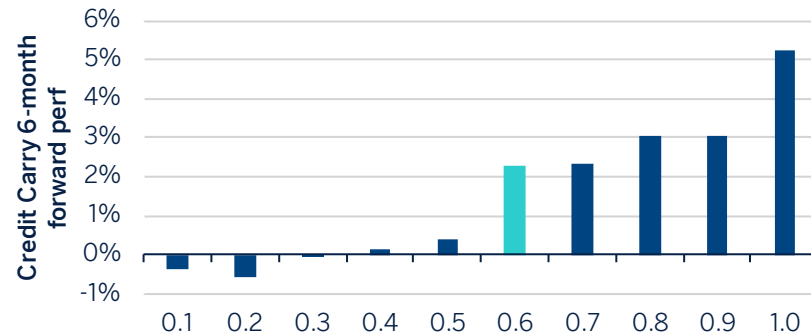
Macro vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



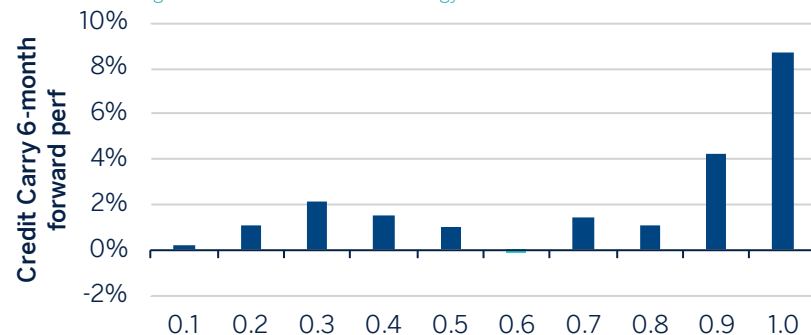
The credit-spread indicator suggests strong returns

Source: Bloomberg and BBVA Global Markets Strategy



The macro vol indicator suggests only modest returns

Source: Bloomberg and BBVA Global Markets Strategy





Corporate &
Investment Banking

BBVA Global Risk Premia Strategy

04

Asset allocator

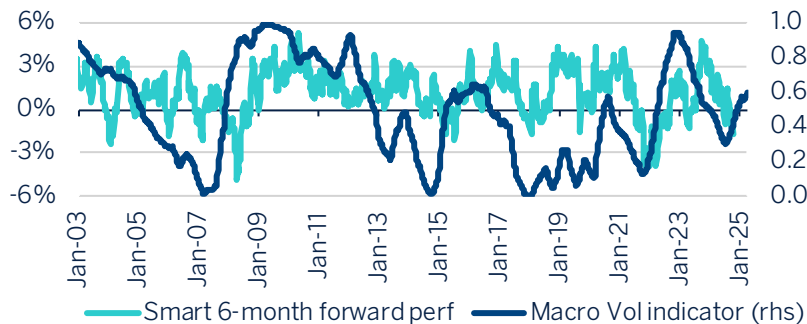
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Creating Opportunities

Asset allocator – SMART

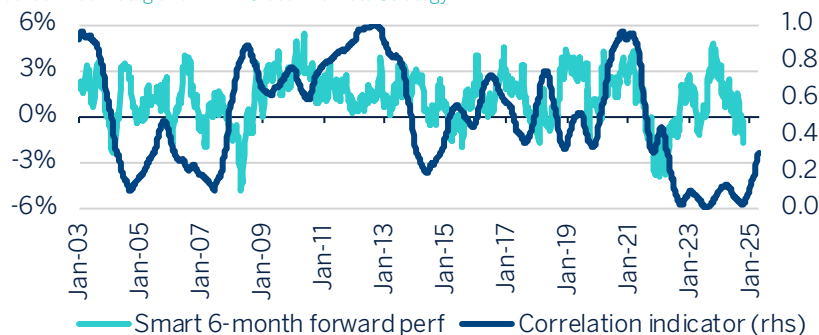
Macro vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



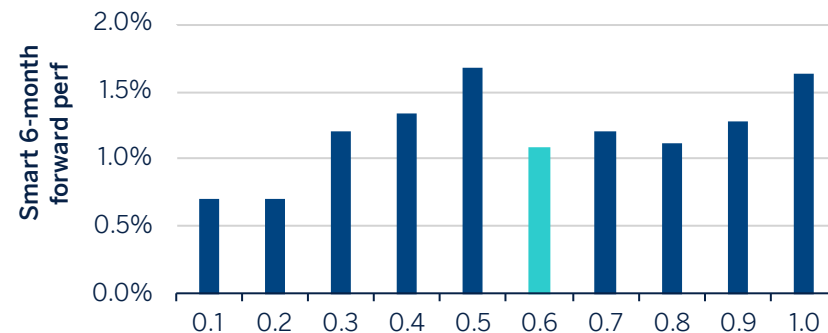
Correlation indicator

Source: Bloomberg and BBVA Global Markets Strategy



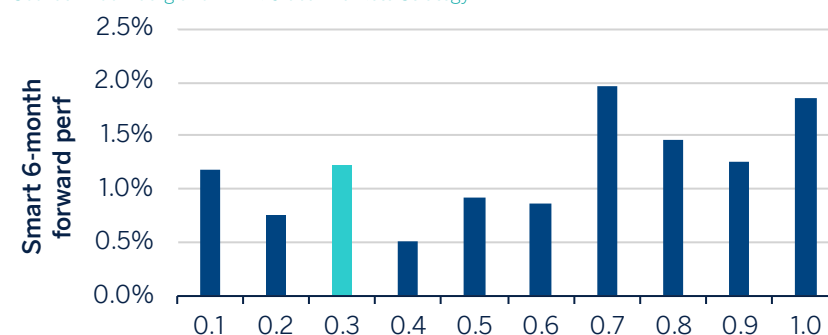
The macro vol indicator suggests average returns

Source: Bloomberg and BBVA Global Markets Strategy



The correlation indicator suggests only modest returns

Source: Bloomberg and BBVA Global Markets Strategy



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