



Corporate &
Investment Banking

BBVA Global Risk Premia Strategy

Fixed Income Risk Premia

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BBVA Global Risk Premia Strategy

01

Summary

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Keep calm and carry on!

- **As the dust settles:** despite the famous "sell in May and go away" adage, May ended up being the best month in terms of US equity vs. bond performance since Jun-2023 and US equities are back in positive territory after the strong equity market rally. The rally was once again largely driven by the Mag-7 stocks, some of which are now trading near their all-time-highs. With the strong equity performance over the past month, our Equity Strategy team now sees limited upside potential in holding equities.
- **Adding QIS to enhance returns:** US equities have delivered >20% returns each year for the past two years. This is a very rare occurrence outside the late 1990s and has only happened twice in the past 100 years; and in both instances cumulative returns in the subsequent two years were negative. It is hard to argue in favour of diversification during periods of more than 20% returns in US equities, although we expect 2025 to be an environment of global portfolio rebalancing and limited returns in equity markets. During such times we believe adding QIS indices to your typical 60-40 portfolios could enhance returns, **particularly by adding carry strategy to replace some equity risk in your portfolio.**
- **The trend has not been a friend:** trend strategies have been under pressure since the JPY carry trade unwound in mid-2024. The environment of macro regime shift since last summer has driven an underperformance in terms of trend strategies. 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. We are currently going through a correction period for trend strategies after a strong four years of performance after COVID. Our risk-premia framework is once again suggesting an overweight positioning in trend strategy, although financial markets are still being driven by short-termism, which makes historical analysis difficult. As a result, we remain cautious on trend and focus on carry.
- **Keep calm and carry on!** In our last publication ([Risk Premia: After Liberation Day](#)) we highlighted our preference for BBVA FX LatAm carry strategy. Since then, the popularity of EM carry trades has increased with the continued depreciation of the USD. We suggested the normalisation of macro volatility combined with near record high ex-ante carry potential as drivers, and we still see these pushing more investors into carry trades. The question most asked by clients on the topic is: "can carry strategies perform despite flat/negative equity returns". In this publication we look at the past episodes of carry strategy performance despite limited equity returns. Our short answer is yes, as long as the rate differential, i.e., the carry potential remains high. We also see credit carry as a diversifier in our already constructive view of the FX LatAm carry trade.

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%	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%	-4%	0%		
FX LatAm Value	22%	42%	31%	-5%	-24%	-22%	1%	10%	
FX Global Value	32%	12%	8%	1%	-18%	-23%	-9%	22%	59%

Key takeaways:

- Risk-off environments typically lead to increased correlation, even though the average pairwise correlation between different risk-premia strategies continues to make new lows. The current environment suggests that investors should increase their diversification in the risk-premia space.
- The average correlation of our risk-premia strategies to a 60/40 portfolio has fallen back to near decade lows. This further supports our argument to add diversification in an environment of limited expectation of returns from 60/40 portfolios.

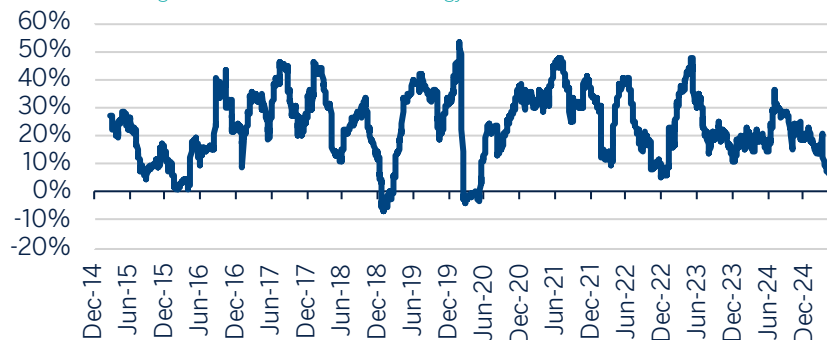
Average pairwise correlation near lows

Source: Bloomberg and BBVA Global Markets Strategy



Correlation of risk premia strategies to 60/40 portfolio

Source: Bloomberg and BBVA Global Markets Strategy



BBVA's QIS risk-premia monitor

BBVA QIS risk-premia monitor

Source: Bloomberg and BBVA Global Markets Strategy

	Performance							Volatility	Correlation 3M						Correlation percentile						Sharpe ratio	
	quarter-to-date	1-month	3-month	6-month	year-to-date	1-year	60 days	SPX	US10Y	60/40	US IG	USD	VIX	SPX	US10Y	60/40	US IG	USD	VIX	10Y	1Y	
Credit Carry	- 0.2	1.1	- 1.2	- 1.6	- 0.9	2.2	3.4	27%	-18%	24%	-12%	-1%	-41%	16%	39%	13%	15%	64%	44%	0.52	0.90	
FX Global Value	- 0.7	0.5	0.7	0.1	3.4	- 4.8	7.3	2%	-29%	-10%	1%	37%	13%	15%	4%	9%	25%	95%	92%	0.27	- 0.89	
FX LatAm Carry	0.3	0.8	1.5	2.1	1.4	- 4.0	10.0	7%	5%	1%	-14%	10%	-22%	12%	79%	13%	23%	49%	67%	0.45	- 0.45	
Asset Allocator	0.3	0.1	0.2	- 0.4	0.6	1.1	3.8	-27%	66%	-12%	12%	-26%	13%	0%	96%	0%	5%	45%	100%	0.75	0.36	
FX Global Trend	- 1.6	- 0.1	- 2.1	- 2.9	- 3.9	- 5.0	3.2	30%	-31%	34%	18%	-11%	-15%	66%	19%	73%	86%	29%	48%	0.33	- 1.30	
FX Global Carry	- 0.7	0.5	0.2	- 0.1	- 0.8	- 2.5	7.8	9%	-2%	-2%	-13%	31%	-23%	14%	66%	11%	26%	71%	72%	0.70	- 0.36	
FX LatAM Trend	- 0.6	- 0.1	- 0.9	- 1.8	- 2.0	- 3.1	2.3	26%	-30%	26%	29%	10%	-2%	65%	12%	62%	96%	58%	64%	0.40	- 0.85	
FX LatAm Value	- 0.2	- 0.2	0.8	3.0	5.5	- 1.2	9.4	7%	-29%	-5%	12%	49%	8%	27%	7%	16%	57%	98%	84%	0.49	- 0.20	
Bond Trend	- 2.1	- 1.2	- 4.1	- 6.5	- 4.4	- 7.1	4.7	-47%	77%	-37%	17%	-4%	36%	8%	62%	19%	44%	31%	87%	0.41	- 1.44	
Credit Trend	- 3.7	- 1.1	- 4.5	- 4.5	- 4.1	- 5.7	3.3	35%	-13%	40%	31%	8%	-25%	36%	40%	40%	84%	69%	64%	0.26	- 2.22	

Key takeaways:

- In line with our expectation, FX LatAm carry has been the best performing strategy since Liberation day along with our asset allocation (Smart) strategy. We maintain our preference for carry strategy in general and FX LatAm carry in particular in the coming quarters.
- BBVA Smart (asset allocator) strategy has delivered the best Sharpe ratio since Liberation day, driven by positive returns with much lower volatility. The US Equity markets have only just moved into positive territory for the year in a much higher volatility environment than our asset allocator strategy. Adding gold to our asset allocator has driven positive alpha in an environment in which stagflation risks remain firmly on investors' radars.
- Trend strategies have underperformed across asset classes given the still-challenging environment of shifting macro regimes. The increase in global disruption stemming from a potential global trade war is not making the macro environment very conducive for a continuation in trends.
- Credit carry was the best performing strategy over the last month; benefiting from spread compression and the ongoing suppression of macro volatility. Spreads remain wide and volatility remains high, which work against creating a conducive environment for this strategy.

BBVA risk-premia framework: key takeaways

BBVA risk-premia framework

Source: Bloomberg and BBVA Global Markets Strategy

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

- We are updating our **BBVA risk-premia framework** in this publication. This model is used to forecast six-month forward returns for each of the risk-premia strategies. Please see the appendix for detailed descriptions of our indicators.
- We are currently going through a **correction period for trend strategies** after a strong four years of performance after COVID. Our risk-premia framework is suggesting an overweight positioning in trend strategy, although financial markets are still being driven by short-termism, which makes historical analysis difficult. As a result, we remain cautious on trend and focus on carry.
- **The credit and FX carry strategy currently ranks best** in the present uncertain macro environment. The main driver of the signal is our volatility indicator and interest rate differentials, which suggest investors should enter carry trades after periods of high volatility.
- **The FX value strategies have seen the best returns recently**, although this performance is expected to fade based on our framework. The FX markets YtD have been driven by moves in the USD, with little dispersion elsewhere.

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Trade of the month: FX LatAm carry

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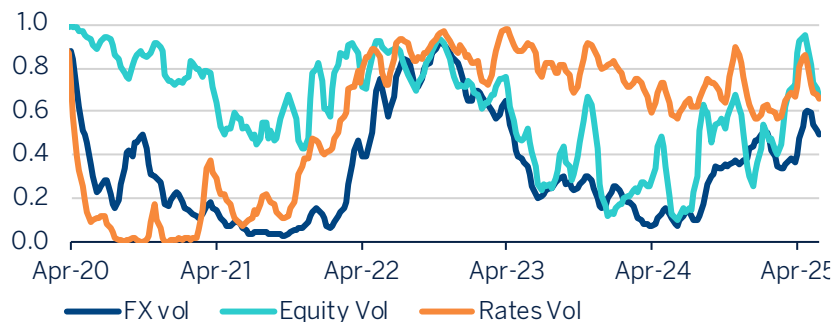
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Trade of the month: FX LatAm carry

- **Contrarian trade to consensus?** In our last publication ([Risk Premia: After Liberation Day](#)) we highlighted our preference for BBVA FX LatAm carry strategy. We saw this as a contrarian trade when we published our report, given the 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 suggested the normalisation of macro volatility combined with near record-high ex-ante carry potential as a driver. We still see these drivers pushing more investors into carry trades.
- **Rate differential:** the interest rate differential remains one of the key reasons for our preference for LatAm FX carry strategy. We have had two rate cuts from the ECB and one from bank of Korea since April, which are among the funding currencies in our LatAm carry strategy. We saw 50bp hikes by the Central bank of Brazil and 50bps cut from the Central Bank of Mexico in LatAm. The rate differential as measured by benchmark rates of the long and the short currencies has widened as a result, which adds to our conviction on the trade.
- **Volatility normalisation in progress:** post-Liberation Day the VIX jumped to highs only seen during the COVID & Global Financial crises. We are currently experiencing a normalisation process with the VIX already at 17.5, still in the 67th percentile in its 20-year history, FX vol in the 50th percentile and rates vol in the 65th percentile. The normalisation process of macro volatility, particularly FX volatility, has been one of the main drivers of forward returns of the carry strategies within our framework. This continues to drive us to maintain a positive stance on this strategy.

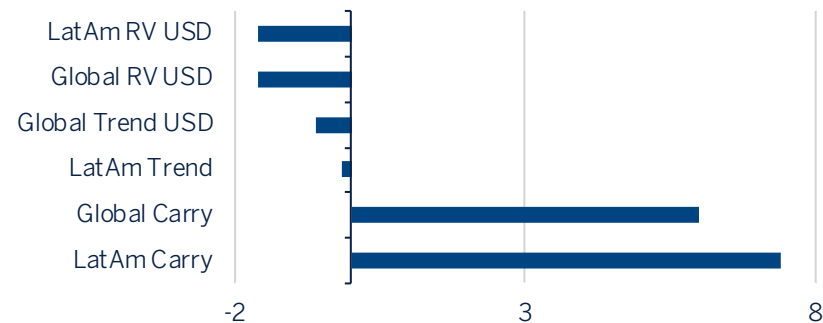
Macro vol normalisation in progress

Source: Bloomberg and BBVA Global Markets Strategy



BBVA FX carry (%)

Source: Bloomberg and BBVA Global Markets Strategy

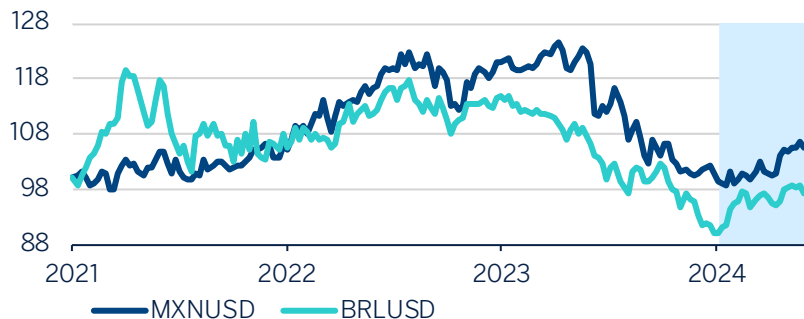


FX LatAm carry: is it priced in?

- 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 ramped-up after Liberation day and, as a result, we have seen the USD correct 8.5% since the start of the year. While EM FX carry has gained popularity of late, we see USD bearishness as the key driver. The BBVA FX strategy team believes that Trumponomics is weighing on the USD ([FX Insights 2Q 2025: The Broken Smile](#)), with the currency entering a phase of structural weakening driven by protectionist US policies, elevated trade uncertainty and deteriorating confidence in US assets.
- EM FX against non-USD FX have room to run:** the Brazilian Real and Mexican Peso have appreciated by 8.2% and 4.6% 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 Mexican Peso has depreciated by 3.8% and the BRL by just 0.5% year to date. The bearish view of the USD has become well documented, as has consensus as a result, and we see room for FX carry trade to play out within non-USD currencies.
- A weak USD helps EM:** a weak USD is typically good for emerging markets with benefits coming from a) a large part of EM debt is denominated in USD; b) room for capital inflows during periods of USD weakness; and c) higher commodity prices priced in EM currencies helps commodity exporters. While we have seen a weak USD, we do not believe the positive effects for EM economies have completely played out.

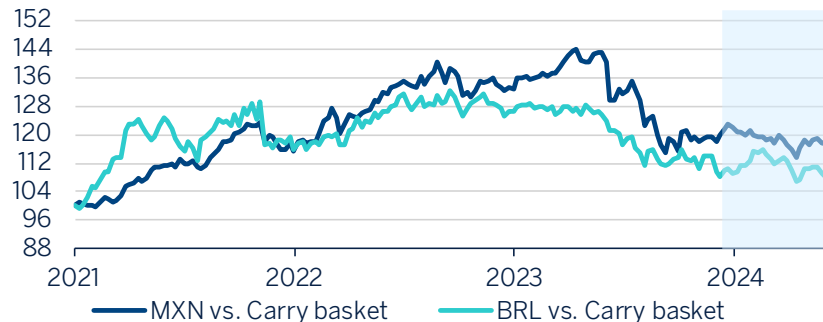
MXN and BRL vs. USD

Source: Bloomberg and BBVA Global Markets Strategy



MXN and BRL vs. basket of lowest yielding currencies

Source: Bloomberg and BBVA Global Markets Strategy

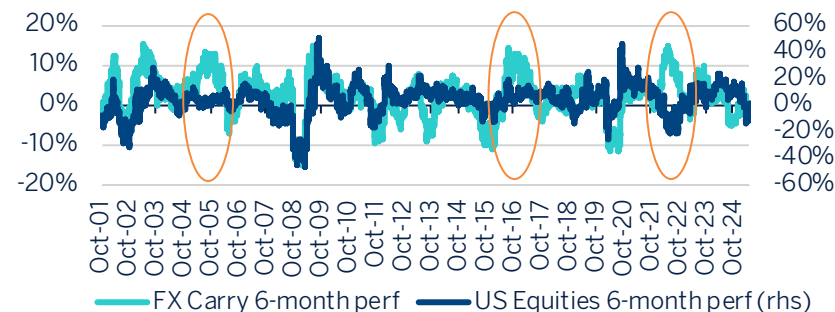


FX LatAm carry: is it decorrelated from equities?

- **Is it decorrelated from equities?** The chart below looks at twenty 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 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 we 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 with a drawdown of more than 20% in equity markets in the past we do tend 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 least at 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.

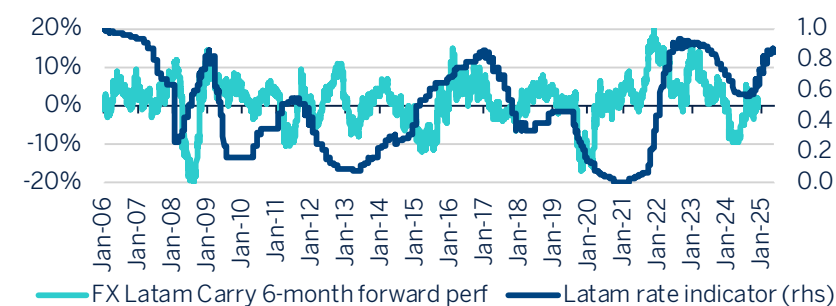
6M return comparison between FX carry and equities

Source: Bloomberg and BBVA Global Markets Strategy



LatAm rate indicator

Source: Bloomberg and BBVA Global Markets Strategy

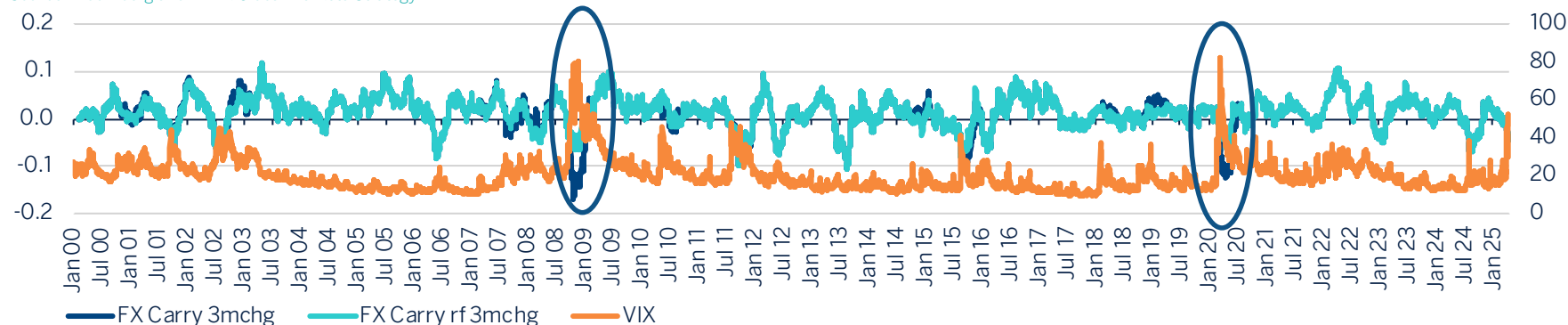


FX carry: risk filter

- **Protecting against drawdowns:** as discussed in the last slide, in all instances of a drawdown of more than 20% in the equity market in the past we do tend 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 provide better Sharpe as compared to their existing equity exposure in their portfolios.
- **Risk filter:** our risk filter is designed to be trigger to protect investors against systemic shocks. The chart below highlights the 3-month rolling return between FX carry strategy with or 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 a result 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 5-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





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Key QIS highlights

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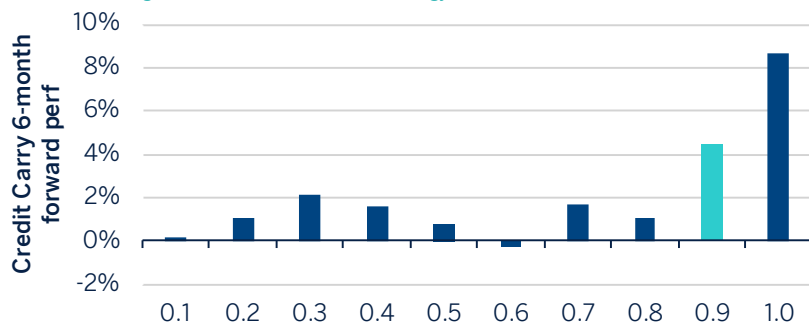
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Credit carry a diversifier

- **Carry remains our focus in the upcoming months:** while we have already shared our positive view on FX carry strategy, particularly in LatAm, we believe credit carry could be another one to consider. Similar to the FX carry strategy, macro volatility and spreads are also the key drivers of credit carry risk premia. The current level of elevated and subsiding macro volatility tends to be one of the best times to own credit carry strategy. Our credit carry strategy has become the best performing strategy within our family of risk premia indices over the last month as a result.
- **Compressing spreads but still elevated:** spreads have compressed but are not yet back at the recent lows. This suggests that even from a spread point of view there remains potential for positive returns. Compared with FX carry where the spread differential remains near all-time-highs, the spread differentials in credit markets have clearly become less attractive in comparison, although historically still a driver of positive returns.
- **A Fed cut could be the trigger:** over the past month, fixed income markets have become optimistic about potential future rate cuts by the Fed in 2025, which has been supportive of the credit spread compression – in addition to diminishing macro volatility. A potential restart of the Fed cutting cycle in 2025 could be the key catalyst to drive spreads back to post-COVID lows, in our view.

The macro vol indicator suggests only strong returns

Source: Bloomberg and BBVA Global Markets Strategy



BBVA trend strategies have suffered as a result

Source: Bloomberg and BBVA Global Markets Strategy



Asset allocator: BBVA Gold Shield strategy

- **Downside risks not to be forgotten:** the BBVA Equity Strategy team wrote ([Stagflation & Recession – The loser takes the fall](#)) in their latest report – “the speed of the market recovery has surprised us, as we genuinely believe that macro risks remain high and recession risk should not be fully discounted. We maintain our view that the downside scenario has a low probability (30%) but within this scenario stagflation is the most likely outcome”. They see four different downside scenario 1) Emerging stagflation – markets still in ‘denial mode’; 2) confirmed stagflation – entering a dark tunnel; 3) recession with high inflation – the worst of both worlds; and 4) traditional recession. The table below highlights the market expectation for their stated downside scenarios. **In all their negative scenarios they see higher gold prices.**
- **Comparing downside protections:** equity volatility is considered the traditional tool to hedge downside protection and typically with 6-12month options. This is indicated by a higher volatility skew of longer expiring equity options (upward sloping skew term structure). Since the beginning of last year, we have seen three equity drawdowns of more than 5% (Apr-24, Jul-24, Feb-Apr-24). In all the 2024 drawdowns, equity markets fully recovered all the losses within two months. This year it took four months to jump back to the highs. As a result, hedging budgets spent to buy protection have not resulted in positive outcomes for investors. While adding gold in the portfolio as a protection tool as provided better alpha than equity volatility.
- **BBVA's gold shield strategy** allocates to gold as a diversifier for equity returns. Since the beginning of last year gold has appreciated 65%, thus working as a positive carry hedge for equity returns. Given that the biggest downside risks to the US economy is still a stagflation scenario we believe investors could consider re-allocating some of their equity exposure to BBVA's Gold Shield Strategy.

The macro vol indicator suggests only strong returns

Source: Bloomberg and BBVA Global Markets Strategy

Scenario	Macro Signal	Top Sectors	Commodities	Market Behaviour
Stagflation (scenarios 1 & 2)	GDP between -1% and 1%, CPI rising 2 quarters or >3%	Comm. Services, Industrials, Staples, Utilities, Energy	Gold↑↑, Oil↑ (volatile)	Complacency turns into weakness; defensives lead
Recession (scenarios 3 & 4)	GDP < -1%, CPI from >1.5% to flat/negative	Health Care, Staples, Utilities, Energy (early)	Gold↑, Oil volatile	First 6m weak across the board; defensives cushion losses
Recession Recovery (scenario 4)	GDP still weak, but inflation easing, market anticipates recovery	IT, Discretionary, Real Estate, Financials (late)	Gold↑ (volatile), Oil volatile	Clear market rebound begins 6m after recession onset

The trend has not been a friend

- **The trend has not been a friend:** trend strategies have been under pressure since the JPY carry trade unwound in mid-2024. The environment of macro regime shift since last summer has driven the underperformance of trend strategies. 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. We are currently going through a correction period for trend strategies after a strong four years of performance post COVID. Our Risk-Premia framework is once again suggesting overweight positioning on trend strategy. Although financial markets are still driven by short-termism, which makes historical analysis difficult. As a result, we remain cautious on the trend and focus on the carry.
- **Challenging macro:** 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 ease, we generally tend to see an improved performance from trend strategies. We believe we are at the start of a new regime, although it might still be too early to go all-in on risk allocation in this trend.
- **BBVA risk-premia framework:** our framework has already turned constructive on trend strategies, although given that the macro environment has remained largely unchanged since the start of the year, we do not want to be too early into this trade.

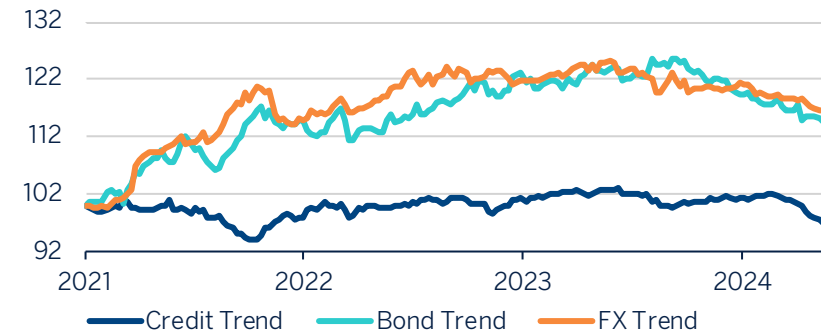
CTA strategies continue to face drawdown

Source: Bloomberg and BBVA Global Markets Strategy



BBVA trend strategies have suffered as a result

Source: Bloomberg and BBVA Global Markets Strategy





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FX risk premia

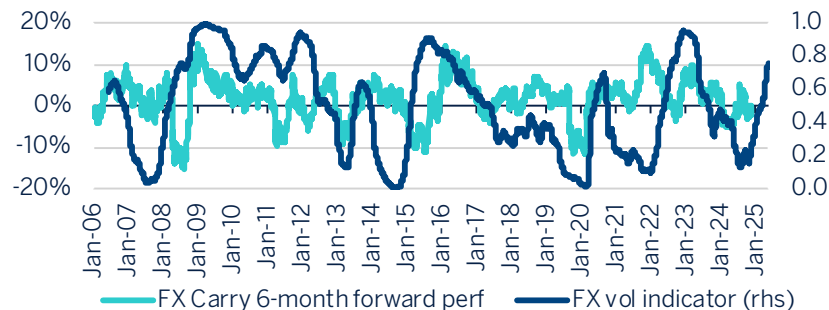
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FX carry – global

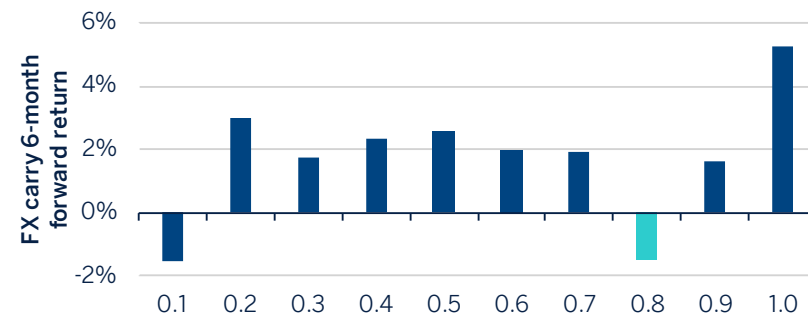
FX vol carry indicator

Source: Bloomberg and BBVA Global Markets Strategy



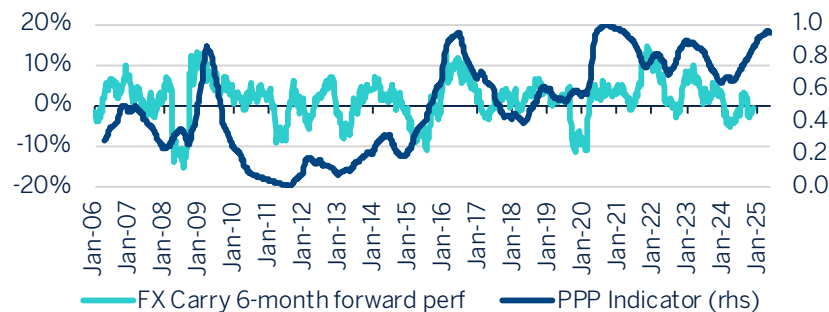
The FX vol indicator suggests negative returns

Source: Bloomberg and BBVA Global Markets Strategy



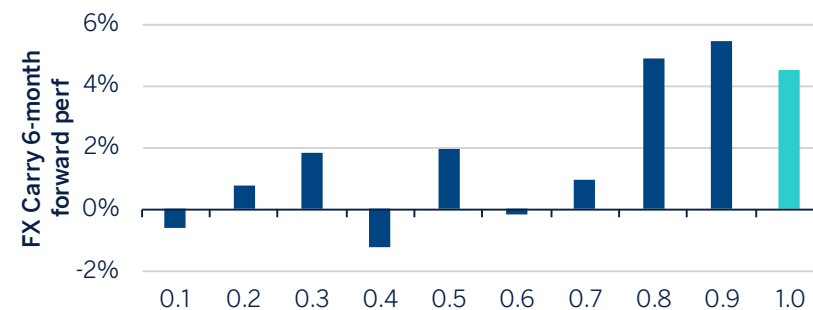
PPP indicator

Source: Bloomberg and BBVA Global Markets Strategy



The PPP indicator suggests strong returns

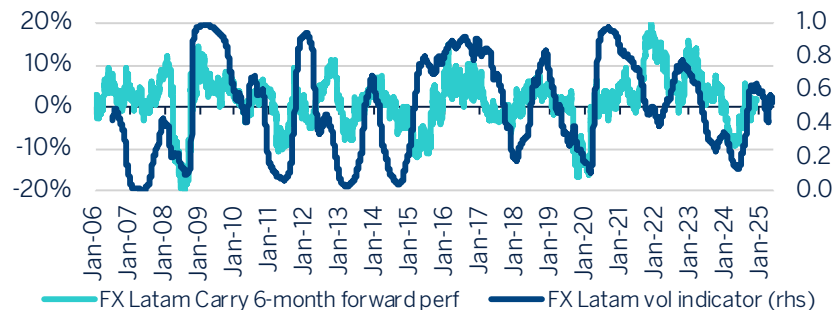
Source: Bloomberg and BBVA Global Markets Strategy



FX carry – LatAm

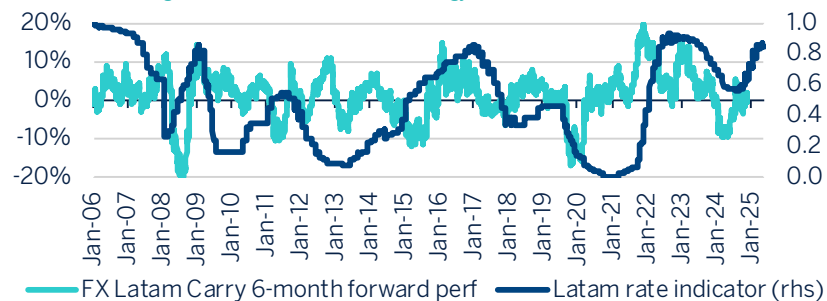
FX LatAm vol carry indicator

Source: Bloomberg and BBVA Global Markets Strategy



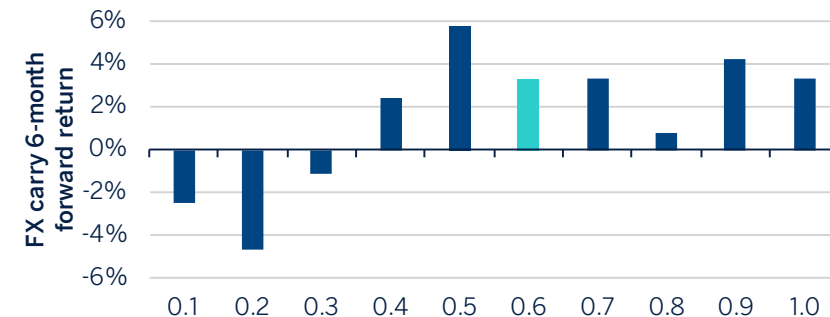
LatAm rate indicator

Source: Bloomberg and BBVA Global Markets Strategy



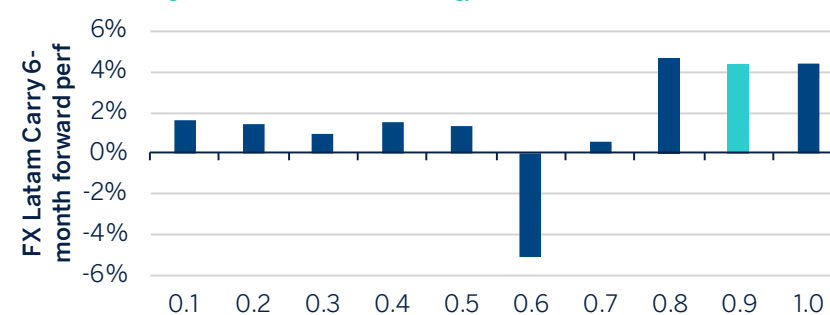
The FX LatAm vol indicator suggests strong returns

Source: Bloomberg and BBVA Global Markets Strategy



The LatAm rate indicator suggests strong returns

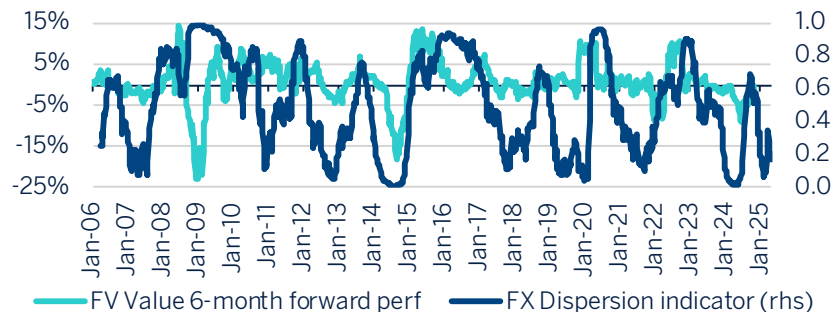
Source: Bloomberg and BBVA Global Markets Strategy



FX value – global

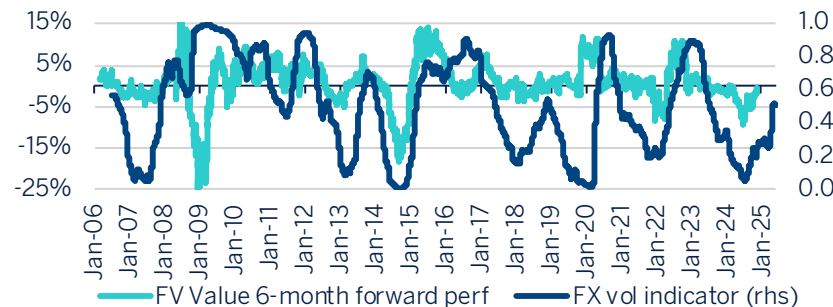
FX dispersion indicator

Source: Bloomberg and BBVA Global Markets Strategy



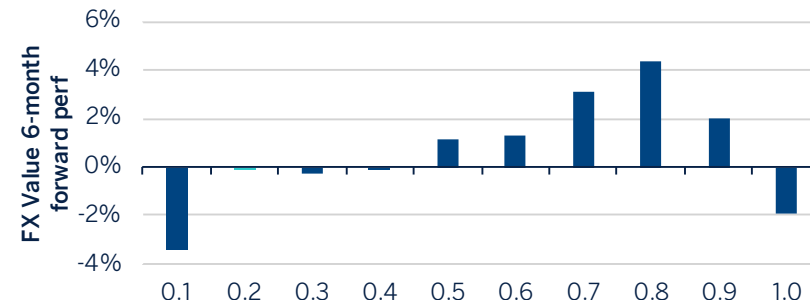
FX vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



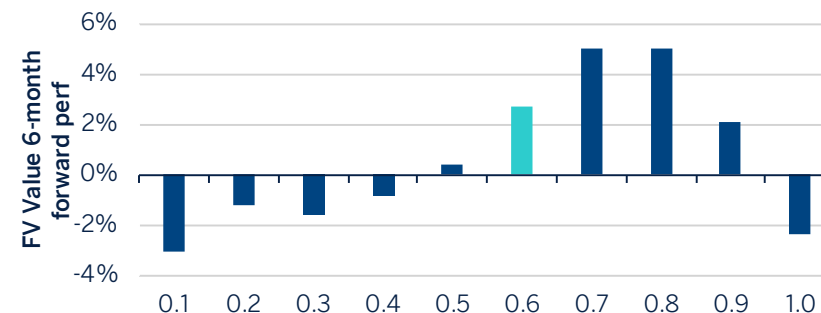
The FX dispersion indicator suggests flat returns

Source: Bloomberg and BBVA Global Markets Strategy



FX vol indicator suggests strong returns

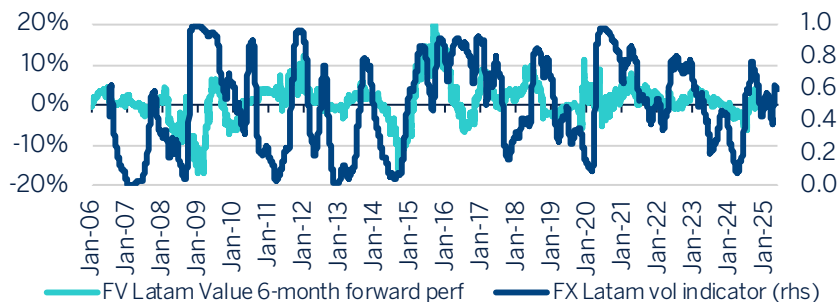
Source: Bloomberg and BBVA Global Markets Strategy



FX value – LatAm

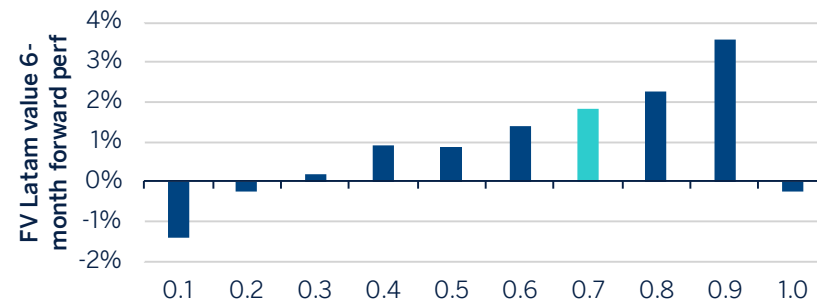
FX LatAm vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



The FX LatAm vol indicator suggests strong returns

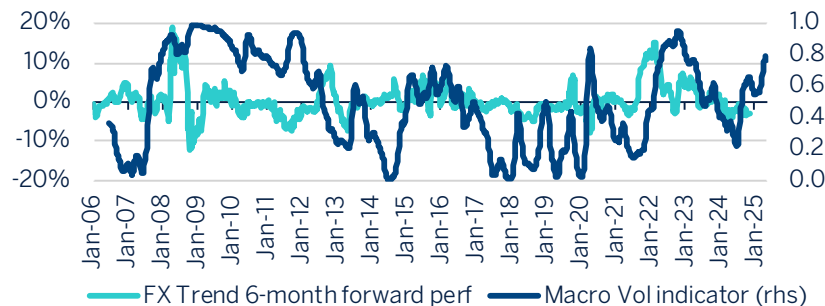
Source: Bloomberg and BBVA Global Markets Strategy



FX trend – global

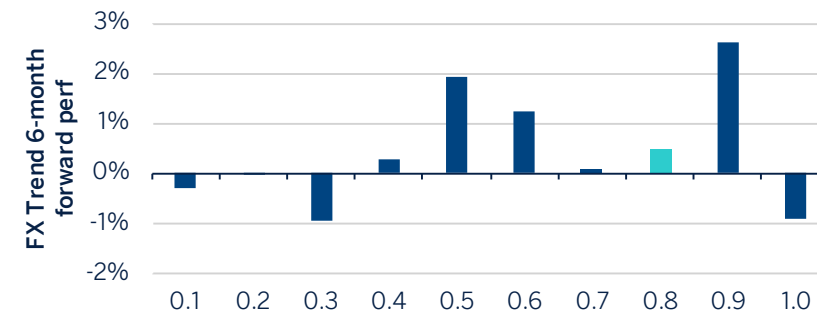
Macro vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



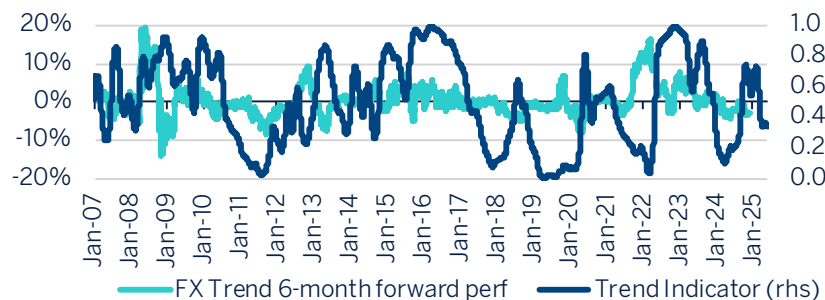
The macro vol indicator suggests modest returns

Source: Bloomberg and BBVA Global Markets Strategy



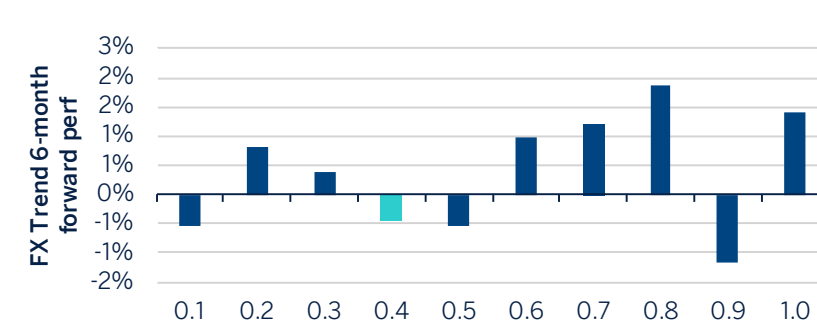
FX trend indicator

Source: Bloomberg and BBVA Global Markets Strategy



The FX trend indicator suggests negative returns

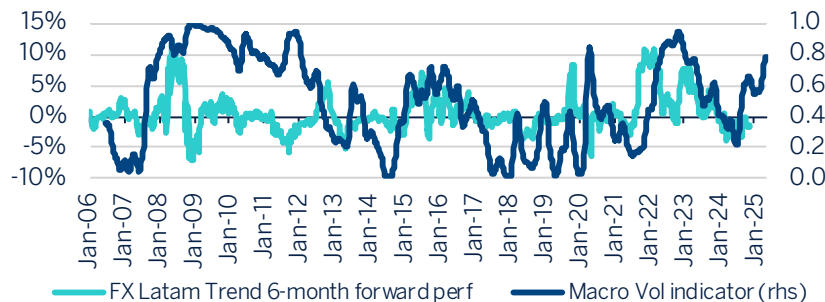
Source: Bloomberg and BBVA Global Markets Strategy



FX trend – LatAm

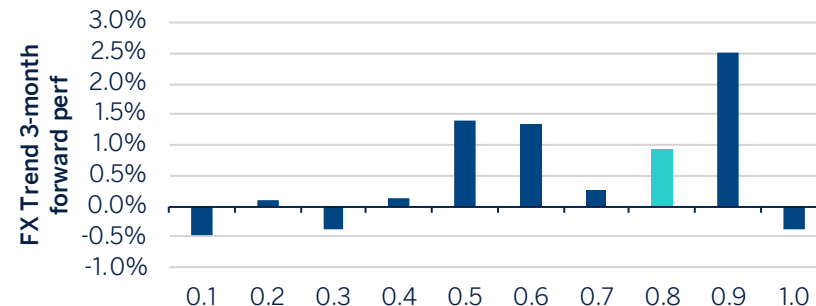
Macro vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



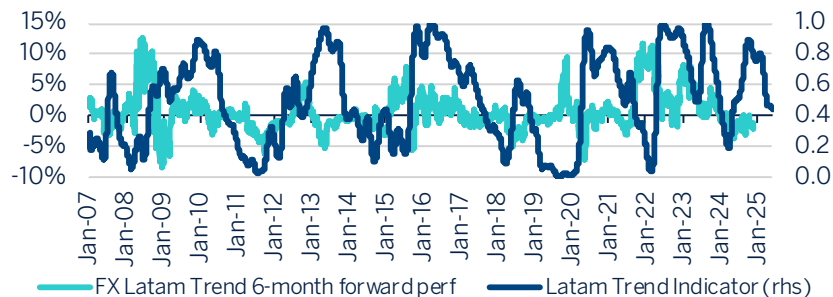
The macro vol indicator suggests modest returns

Source: Bloomberg and BBVA Global Markets Strategy



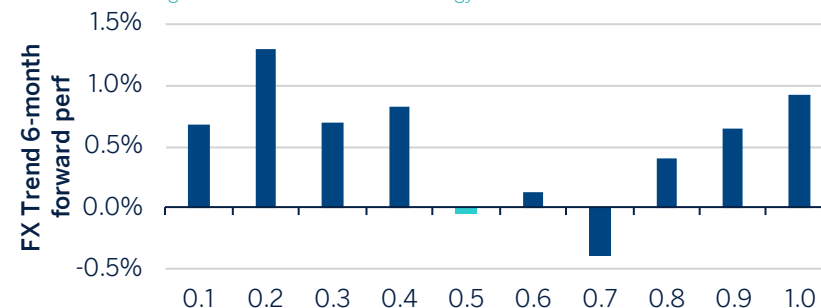
FX LatAm trend indicator

Source: Bloomberg and BBVA Global Markets Strategy



The FX LatAm trend indicator suggests negative returns

Source: Bloomberg and BBVA Global Markets Strategy





Corporate &
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BBVA Global Risk Premia Strategy

05

Bond and credit risk premia

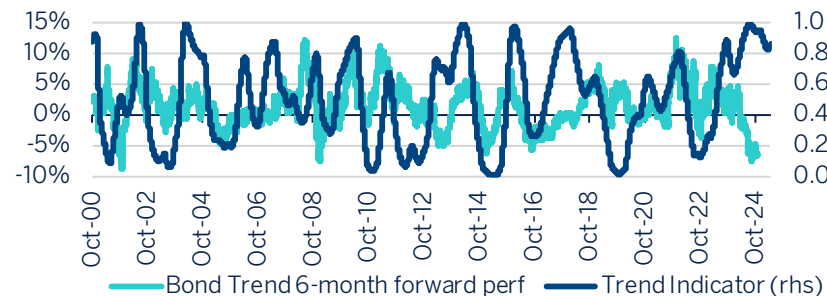
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Creating Opportunities

Bond trend

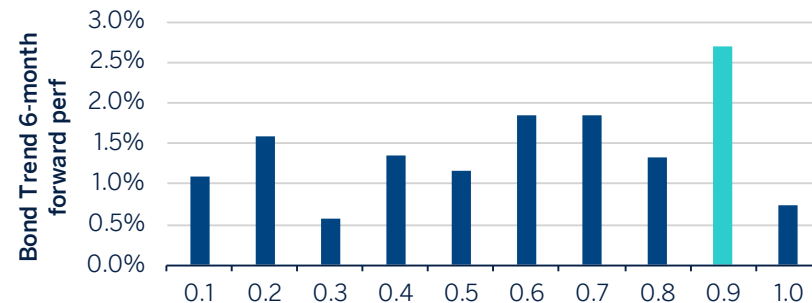
Bond trend indicator

Source: Bloomberg and BBVA Global Markets Strategy



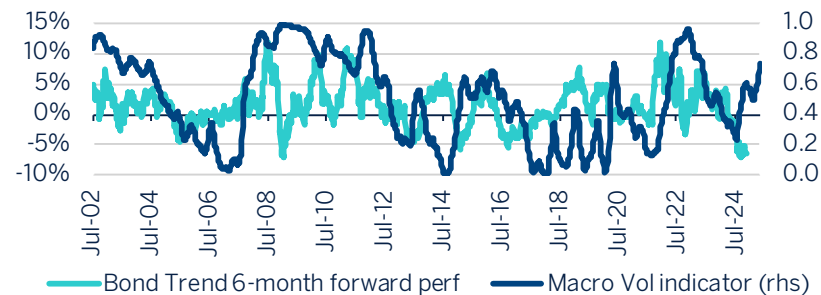
The Bond trend indicator suggests strong returns

Source: Bloomberg and BBVA Global Markets Strategy



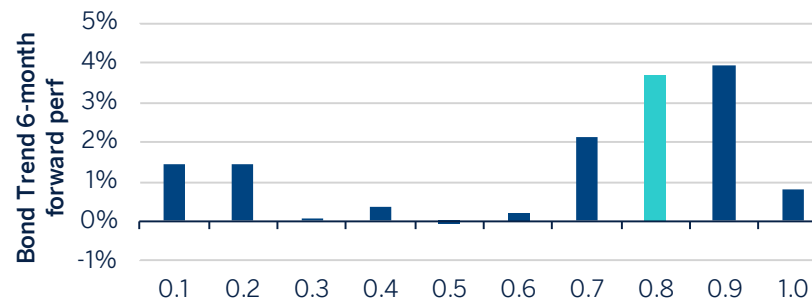
Macro vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



The macro vol indicator suggests strong returns

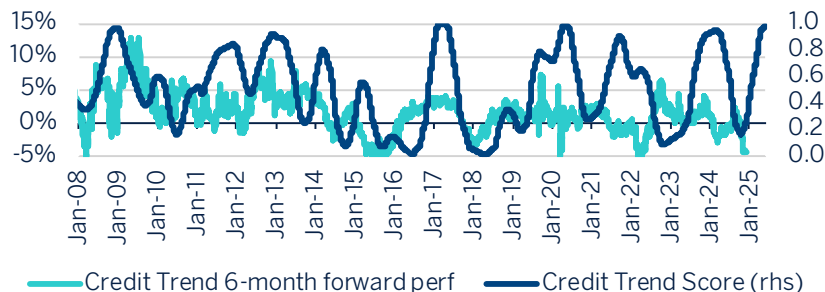
Source: Bloomberg and BBVA Global Markets Strategy



Credit trend

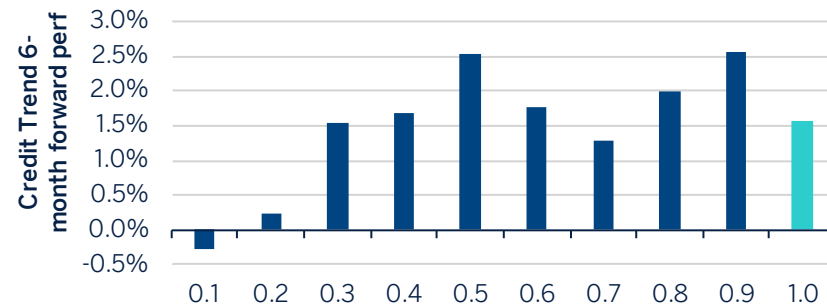
Credit-trend indicator

Source: Bloomberg and BBVA Global Markets Strategy



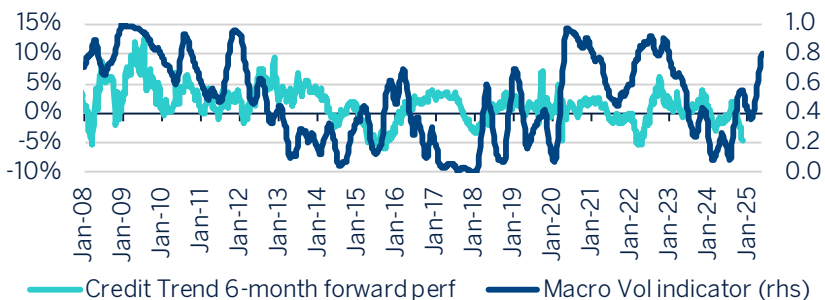
The credit-trend indicator suggests strong returns

Source: Bloomberg and BBVA Global Markets Strategy



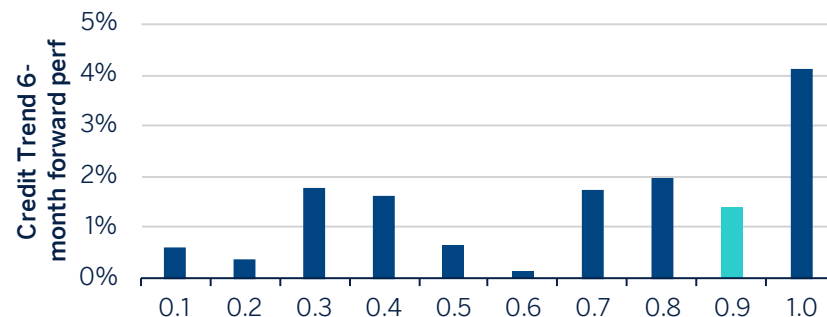
Macro vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



The macro vol indicator suggests average returns

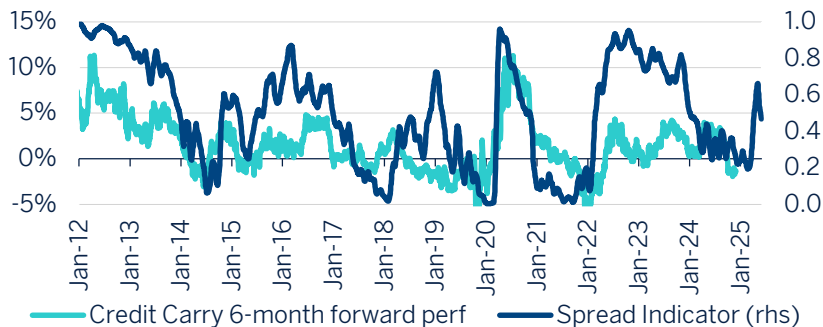
Source: Bloomberg and BBVA Global Markets Strategy



Credit carry

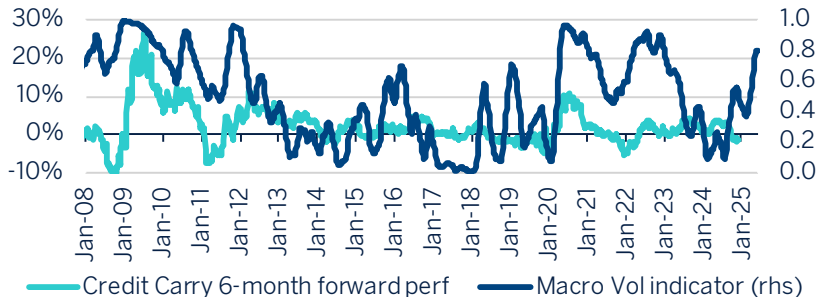
Credit-spread indicator

Source: Bloomberg and BBVA Global Markets Strategy



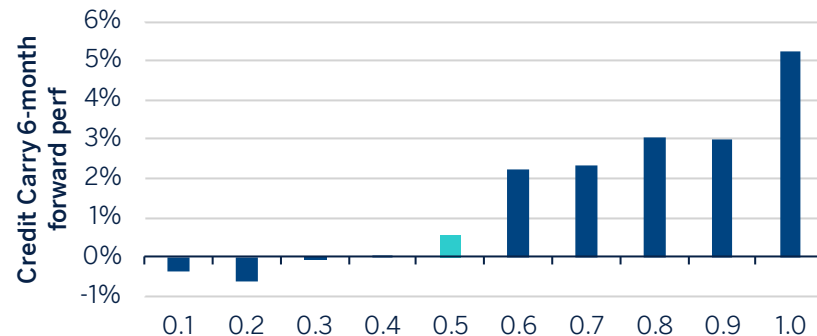
Macro vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



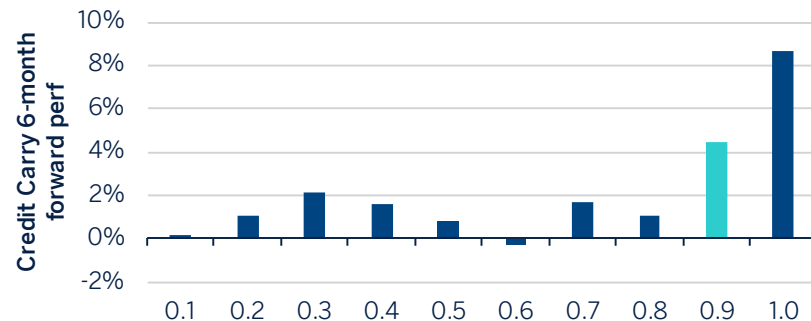
The credit-spread indicator suggests limited returns

Source: Bloomberg and BBVA Global Markets Strategy



The macro vol indicator suggests only strong returns

Source: Bloomberg and BBVA Global Markets Strategy





Corporate &
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BBVA Global Risk Premia Strategy

06

Asset allocator

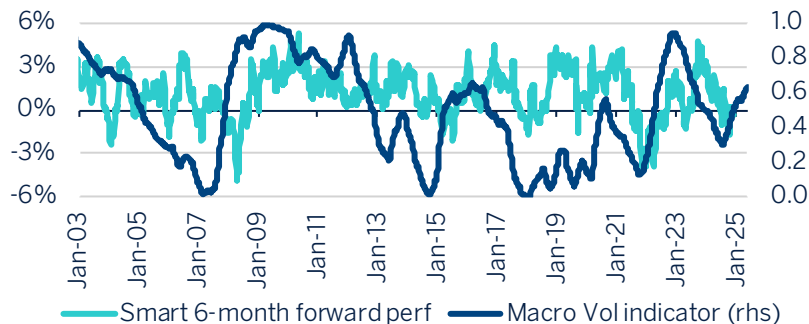
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Creating Opportunities

Asset allocator – SMART

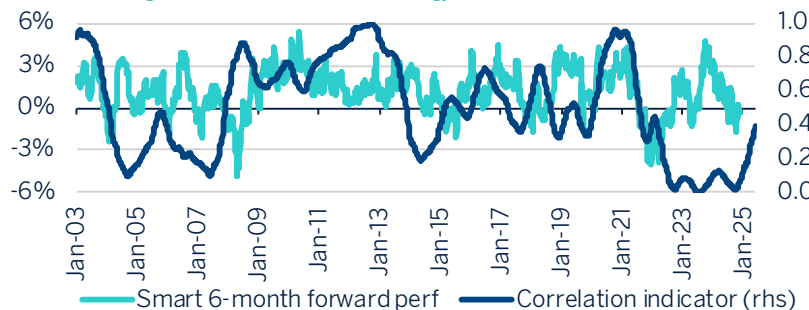
Macro vol indicator

Source: Bloomberg and BBVA Global Markets Strategy



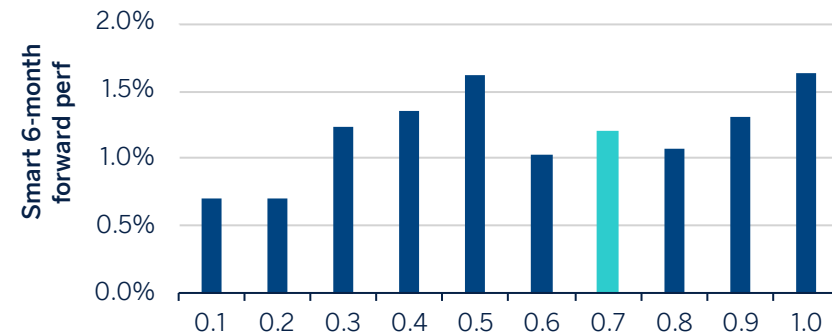
Correlation indicator

Source: Bloomberg and BBVA Global Markets Strategy



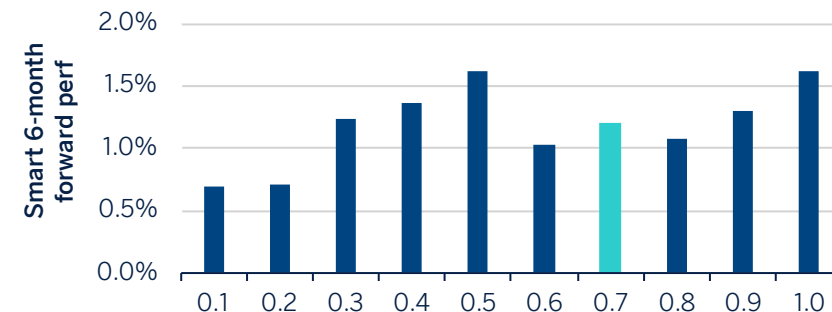
The macro vol indicator suggests average returns

Source: Bloomberg and BBVA Global Markets Strategy



The correlation indicator suggests average returns

Source: Bloomberg and BBVA Global Markets Strategy





Corporate &
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BBVA Global Risk Premia Strategy

07

Appendix

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Creating Opportunities

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 USD 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.

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.

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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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