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QIS Risk Premia: Carry vs. Trend

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BBVA QIS Trade Tracker

BBVA QIS TRADE TRACKER

Source: Bloomberg and BBVA Global Markets Strategy

Title	Publication		Performance						Since Launch	Launch date	Close Date	Comments
			1-month	3-month	6-month	year-to-date	1-year					
BBVA Long US vs. Europe	QIS Tactical	BBXTUESU	1.2	-1.2	-2.6	-0.5	3.8	0.5	03 Mar 26		We see long US equities vs. Europe as a hedge against rising Geopolitical risks in middle east	
BBVA Credit Trend	QIS Risk Premia Outlook	BBCITRUS	-1.1	-0.6	0.4	-0.9	-2.6	-1.1	15 Jan 26		We like Credit Trend to increase allocation into the trend risk premia bucket as macro volatility subsides	
BBVA EM vs. DM FX carry*	QIS Tactical	BBXTEDLU	-0.1	1.9	5.8	1.6	8.3	3.8	07 Oct 25		FX carry currently remains our highest conviction idea	
BBVA Small Cap Index*	QIS Thematics	RUTF40V	-10.0	0.9	15.5	6.6	37.2	6.3	18 Sep 25		We expect small caps to outperform as the Fed continues its rate-cutting cycle and US growth remains resilient	
BBVA FX Latam Carry*	QIS Risk Premia Outlook	BBFXLCRU	1.1	4.0	7.6	3.8	14.2	14.2	23 Apr 25		FX carry currently remains our highest conviction idea	
BBVA FX Global Carry*	QIS Risk Premia Outlook	BBFXGCRU	0.8	3.0	6.2	2.6	10.1	11.1	23 Apr 25		FX carry currently remains our highest conviction idea	
BBVA Global Infrastructure	QIS Thematics	SBVGINUN	2.1	12.8	14.7	12.0	22.5	22.4	18 Mar 25		Global fiscal spending has helped this theme, which we expect to continue this year	
BBVA Cybersecurity Index*	QIS Thematics	SBVCYBEN	2.3	4.3	12.3	5.6	30.5	18.2	31 Dec 24		Cybersecurity is no longer optional; it's fundamental to business continuity	
BBVA AI and VR Index	QIS Thematics	SBVAVREN	3.0	-13.4	-12.5	-10.3	-0.6	-14.9	31 Dec 24	10 Mar 26	AI theme is starting to see outflows into AI winners	
BBVA De-Dollarisation Index	QIS Tactical	BBXTDDL	-2.5	-0.5	-2.6	-1.3	2.3	0.1	13 May 25	03 Mar 26	Closed due to Iran conflict	
BBVA Long Europe vs. US Equity	QIS Tactical	BBXTEUSU	-1.1	0.9	2.1	0.4	-4.8	-4.4	31 Mar 25	03 Mar 26	Closed due to Iran conflict	
BBVA Long Europe vs. US FX	QIS Tactical	BBXTEFLU	-2.3	1.5	-0.1	0.4	6.9	6.5	31 Mar 25	03 Mar 26	Closed due to Iran conflict	
BBVA Long Europe vs. US Credit	QIS Tactical	BBXTUICU	0.8	0.5	-0.5	0.9	-0.2	-0.1	31 Mar 25	07 Oct 25	Closed	
BBVA Credit Trend	QIS Risk Premia Outlook	BBCITRUS	-1.1	-0.6	0.4	-0.9	-2.6	-2.4	11 Mar 25	23 Apr 25	Closed	

*High conviction ideas
Table as of 10 March 2026

1. Summary

Carry vs. Trend

US growth is at its softest since 1Q25: US economic sentiment has continued to soften despite a positive blip at the start of the year. Recent economic indicators suggest that momentum in the US economy has weakened, with growth now appearing to be at its slowest since the first quarter of 2025. The increase in gasoline prices to the highest levels in two years is likely to add fire to the stagflationary debate facing the US economy. That said, in our base case we see the current energy price shock as transitory and the next move by the Fed likely to be a cut rather than a hike and that the US economy will continue to grow to above 2% by YE26e.

BBVA FCI back near critical levels: our BBVA Financial Conditions Index (FCI) has recently jumped to its highest levels since April last year. While we are still in negative territory, the current Middle East tensions have the potential to push it higher into positive territory from the current reading of -0.1x. Similar to our growth outlook, our Financial Conditions Index is also pointing to some near-term caution.

Geopolitics: The evolving conflict involving Iran should primarily be interpreted as a **potential energy supply shock** rather than purely as a geopolitical risk event. The key transmission channel for global markets is energy - specifically the **Strait of Hormuz**, through which roughly **20% of global oil consumption and a significant share of LNG exports transit**, making it one of the most critical chokepoints for global energy flows (for more please see: **EUROPE: Energy Shock Risk and the Strait of Hormuz**).

BBVA Flow Focus: interestingly, we have seen marginal outflows from EM equities and substantial inflows into EM bond funds over the last twelve months. This shift in flow momentum in favour of EM bonds has bolstered the outperformance of our FX carry strategies. The all-in yield in EM bonds are still attractive, and investors have reversed their outflows in the last five years, and given the persistent yield differential, we expect the flow momentum to continue in favour of EM bonds thus helping our FX carry strategies (see [QIS Tactical: Carry EM on!](#) – 7 Oct. 2025).

Cross asset volatility dispersion: the recent geopolitical tensions have resulted in a sharp spike in equity volatility while credit, FX and rates volatility have lagged. Back in April last year, we believe it was easier for the US government to backtrack on some of its rather draconian tariff policy with the resultant quick recovery in financial markets. However, this time around the effects of higher energy prices are likely to last for longer given that Oil & Gas production has already been halted in some of the key Middle-Eastern economies and the Strait of Hormuz remains shut at the time of writing.

Carry vs. Trend (ii)

Our framework shows a strong momentum score in favour of FX trend strategies indicating that trend signals in major currency markets are gradually strengthening. In an environment with a continued uptick in our Financial Conditions Index, we believe the strong momentum in FX trend strategy could continue. FX carry and trend strategy have recently outperformed the rest in terms of short-term Sharpe ratios despite the uncertain market environment. The Credit trend has underperformed recently due to tensions in the Middle East, although we remain constructive on credit markets in the remainder of the year based on solid fundamentals combined with attractive all-in yields.

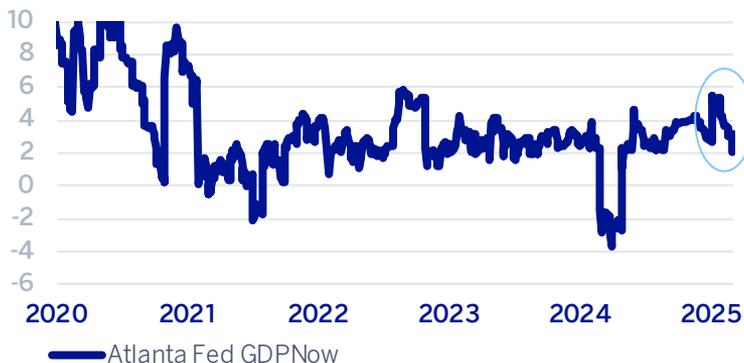
Trade of the month: FX Trend – this strategy benefits from some of the same fundamental drivers that underpin our preference for FX Carry. Flow momentum remains the key determinant of trend strategy performance and has continued largely uninterrupted over the last twelve months. Given the still-elevated interest-rate differentials between EM and DM economies, we believe these flows could continue despite the geopolitical tensions in the Middle East.

US growth on shaky grounds

US growth is at its softest since 1Q25: US economic sentiment has continued to soften despite a positive blip at the start of the year. The latest jobs data was once again negative for the month of February accompanied by downward revisions to the prior months. Recent economic indicators suggest that momentum in the US economy has softened, with growth now appearing at its weakest point since 1Q25. The charts highlight two main areas of concern: the decline in real-time growth estimates and the sharp slowdown in job creation. Together, these indicators illustrate a moderation in economic activity rather than a collapse, consistent with a mid-cycle phase in the economic cycle. Even US composite PMIs recently dropped to the lowest levels since April-2025. The latest rise in energy prices increases stagflationary risks in the US economy. The February payroll data showed an upward surprise in wage data and downward surprise in the unemployment rate. With gasoline prices climbing to the highest levels in two years, this is likely to add fire to the stagflationary debate facing the US economy. That said, in our base case we see the energy price shock we are currently experiencing as transitory and the next move by the Fed more likely to be a cut rather than a hike and that the US economy should still grow above 2% by YE26e.

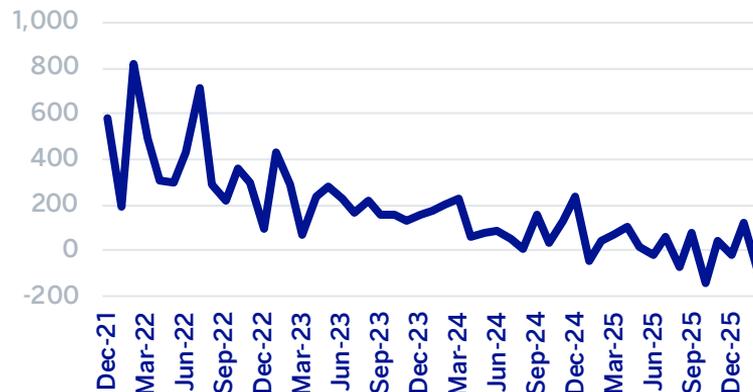
US GROWTH MOMENTUM HAS LOST STEAM RECENTLY

Source: Bloomberg and BBVA Global Markets Strategy



US JOBS CREATION IS THE BIGGEST CONCERN

Source: Bloomberg and BBVA Global Markets Strategy



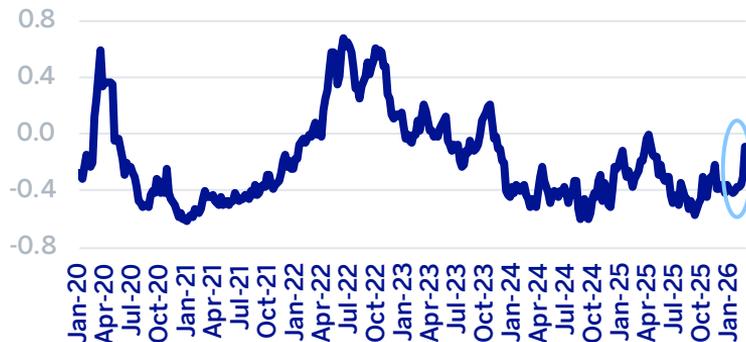
BBVA FCI at highs since Liberation day

BBVA FCI back near critical levels: our BBVA Financial Conditions Index has recently jumped to its highest levels since April last year. While we are still in negative territory, the current Middle East tensions have the potential to push it higher into positive territory from the current reading of -0.1x. Similar to our growth outlook, our Financial conditions Index is also pointing to some near-term caution. When our FCI indicator is between 0.0 and -0.2x we have historically seen positive returns across our universe of QIS strategies, with a notable outperformance of FX carry strategies. We believe this is particularly true when financial conditions are dropping from high positive territory back to the negative side. Carry historically tends to underperform in an environment of rising volatility and outperform during episodes of volatility declines. While equity volatility has picked up over the last few weeks, the movement in rates, FX and credit volatility has somewhat lagged. This explains the limited drawdown in our FX carry strategies over the past month of just 1.2% after a 1-year return of c.15%. That said, when our FCI indeed moves into slightly positive territory between 0x and 0.2x we tend to see a strong pick-up in the performance of FX trend strategies. Trend strategies are by nature convex in nature, which tends to kick in as the FCI moves into positive territory. Given the still-uncertain macro-outlook, we believe investors should consider our FX trend strategy to capture the prevailing geopolitical uncertainty.

BBVA US FINANCIAL CONDITIONS INDEX

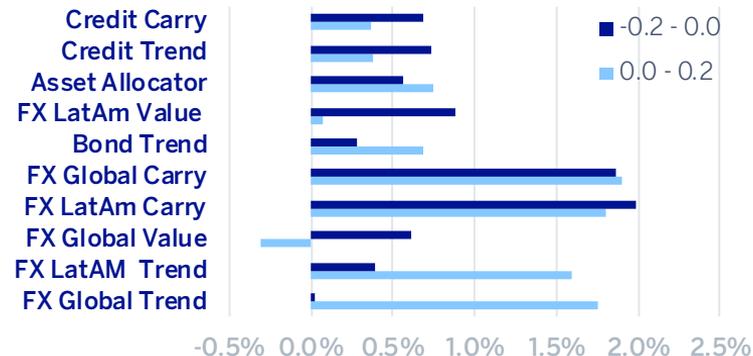
(BBRIFCUS)

Source: Bloomberg and BBVA Global Markets Strategy



QIS RETURNS BASED ON THE CURRENT FCI

Source: Bloomberg and BBVA Global Markets Strategy



Energy Shock

The following is an extract from **EUROPE: Energy Shock Risk and the Strait of Hormuz**, our views on the impact of the current geopolitical tensions on financial markets.

The evolving conflict involving US-Israel-Iran should primarily be interpreted as a **potential energy supply shock** rather than a purely geopolitical risk event. The key transmission channel for global markets is energy - specifically the **Strait of Hormuz**, through which roughly **20% of global oil consumption and a significant share of LNG exports transit**, making it one of the most critical chokepoints for global energy flows.

The central question for markets is whether oil prices continue to reflect a **geopolitical risk premium** or evolve into a **structural supply shortage**. This distinction will ultimately determine the trajectory of inflation expectations, long-end interest rates, credit spreads and broader risk assets.

In practical terms, **USD100/bbl for Brent represents a key regime threshold**. Below this level, markets are likely largely pricing in a geopolitical premium. Sustained levels above it would increasingly signal a structural supply disruption with broader macroeconomic implications.

Energy remains the main macro transmission channel. A meaningful disruption in flows through the Strait of Hormuz could push oil prices significantly higher, lifting inflation expectations, widening credit spreads and increasing cross-asset volatility. At the same time, early signs of mitigation are emerging, including the **re-routing of Saudi oil through the East-West pipeline to the Red Sea**, which may partially offset upward pressure on oil prices even if it cannot fully compensate for a prolonged disruption in flows through the Strait of Hormuz.

At present, markets appear to be pricing in a **contained escalation scenario**, in which shipping remains operational, but geopolitical risk premia remain elevated. In this environment, volatility rises but financial conditions only tighten moderately. Past experience suggests that equity markets can remain relatively resilient to geopolitical shocks provided that **physical energy flows remain largely uninterrupted**.

Nevertheless, **tail risks remain significant**, and how the conflict plays out - particularly the operational status of the Strait of Hormuz - will be decisive. Market outcomes could range from a contained escalation with a more persistent geopolitical premium for oil to a more prolonged disruption that transforms the energy shock into a broader macro shock.

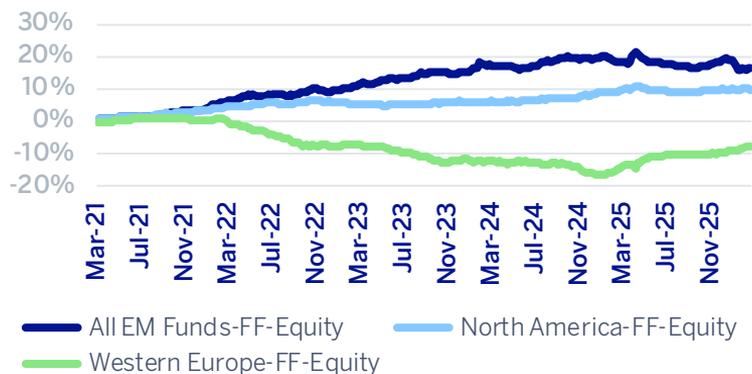
BBVA Flow Focus

BBVA Flow Focus: EM equities were the main beneficiaries in terms of ETF and Mutual Fund flows in the aftermath of COVID according to EPFR. Interestingly, over the past twelve months we have seen marginal outflows from EM equities and substantial inflows into EM bond funds. This shift in flow momentum in favour of EM bonds has bolstered the outperformance of our FX carry strategies. The all-in yield of EM bonds is still attractive, and investors have reversed their outflows of the last five years; and, given the persistent yield differential, we expect the flow momentum to continue in favour of EM bonds thus helping our FX carry strategies (see [QIS Tactical: Carry EM on!](#) – 7 Oct 2025).

The underperformance of Chinese equities could be attributed as a key driver of muted EM equity flows over the past months, even though active funds have been buyers of EM equities this year. In the equity space, investors have shown particular interest in European equities over the last twelve months, after the announcement of sizeable fiscal spending packages across Europe. We believe the ongoing oil price shock poses a risk to the European flow momentum and we therefore think there is a risk of European equities underperforming in the near term (see [QIS Tactical: US over Europe](#) – 4 March 2026).

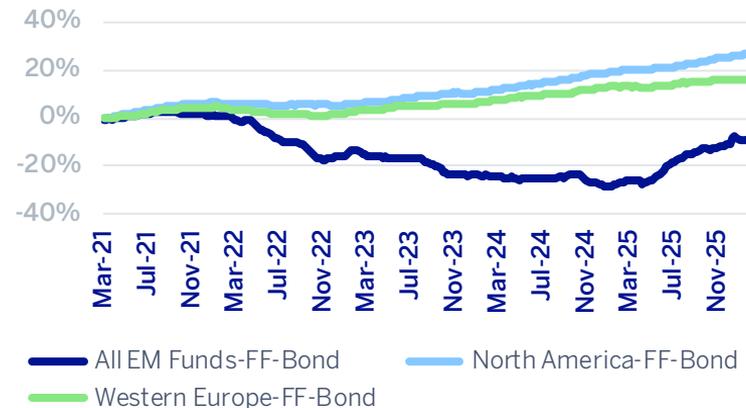
INVESTORS HAVE FAVOURED EU EQUITIES OVER THE LAST 12 MONTHS

Source: EPFR and BBVA Global Markets Strategy



EM BONDS ARE SEEING SIGNIFICANT INFLOWS

Source: EPFR and BBVA Global Markets Strategy

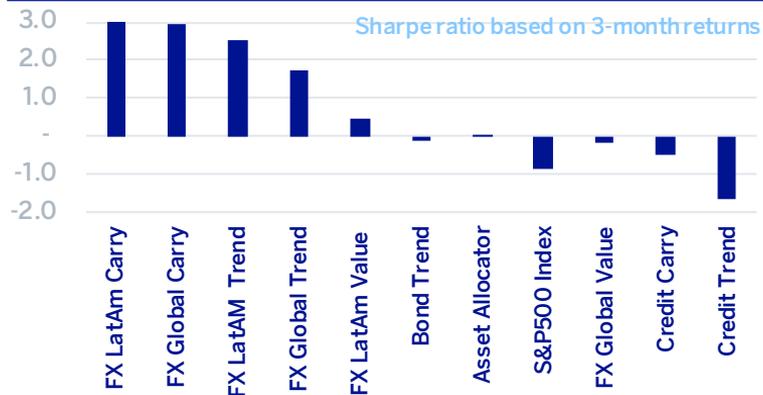


Improving Sharpe ratios in FX

Improving Sharpe ratios in the FX carry and trend: as highlighted in the previous slide, the recent geopolitical tensions have resulted in a sharp spike in equity volatility while credit, FX and rates volatility have lagged. The vol-of-vol remains high across asset classes and things could still change fast, nonetheless, we have clearly transitioned away from a benign low-volatility environment in January and entered a higher volatility period similar to April last year, even though not back at that extreme yet. Back in April last year, we believe it was easier for the US government to backtrack on some of its rather draconian tariff policy with the resultant quick recovery in financial markets. However, this time around the effects of higher energy prices are likely to last longer given that Oil & Gas production has already been halted in some of the key Middle-Eastern economies and the Strait of Hormuz remains shut at the time of writing. Even in the scenario of a quick conclusion to the military conflict, we expect oil prices to remain higher than pre-conflict levels, thus driving an earnings risk for the global markets going forward. In this regard, a higher volatility premium in equity markets seems to be justified for now.

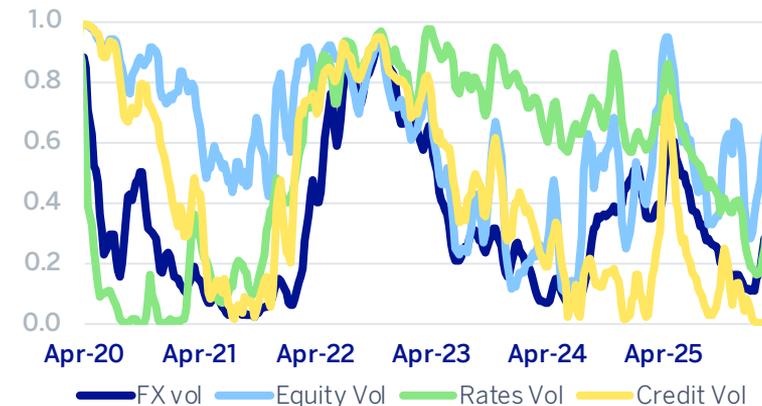
BBVA QIS STRATEGY SHARPE RATIOS OVER THE LAST 3M

Source: Bloomberg and BBVA Global Markets Strategy



MACRO VOLATILITY IN A DOWNTREND

Source: Bloomberg and BBVA Global Markets Strategy



BBVA risk-premia: the FX trend in focus

- In line with our macro expectations, the **BBVA QIS framework also shows a preference for FX carry strategy**. FX Global Carry currently has the strongest overall signal, with a 100% leading score and 89% momentum score, making it the most compelling strategy in the current environment, primarily driven by still-elevated interest rate differentials.

BBVA RISK-PREMIUM FRAMEWORK

Source: Bloomberg and BBVA Global Markets Strategy

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

- In addition, our framework shows a strong momentum score in favour of FX trend strategies indicating that trend signals in major currency markets are gradually strengthening. In an environment of continued uptick in our financial condition index, we believe the strong momentum in FX trend strategy could continue. FX carry and trend strategy have recently outperformed the rest in terms of short-term Sharpe ratios despite the uncertain market environment. The Credit trend has underperformed recently on the back of Middle East tensions, although we remain constructive on credit markets over the course of the year based on solid fundamentals coupled with attractive all-in yields.
- The BBVA Asset Allocator Strategy is currently our third preferred strategy with moderate fundamental and momentum scores. This strategy has shown historic resilience in both bull and bear market environments, underscoring the 'all-weather' nature of this strategy.

FX carry strategies lead the pack

BBVA QIS RISK-PREMIA MONITOR

Source: Bloomberg and BBVA Global Markets Strategy

	Performance					Volatility		Correlation 3M					Correlation percentile					Sharpe ratio		
	1M	3M	6M	YTD	1Y	60 days	SPX	US10Y	60/40	US IG	USD	VIX	SPX	US10Y	60/40	US IG	USD	VIX	10Y	1Y
FX LatAm Carry	1.1	4.0	7.6	3.8	14.2	5.9	44%	-20%	45%	4%	12%	-51%	77%	40%	84%	63%	45%	15%	0.46	2.77
FX Global Carry	0.8	3.0	6.2	2.6	10.1	4.8	40%	-23%	39%	-3%	21%	-46%	63%	41%	68%	50%	54%	34%	0.71	2.39
FX LatAM Trend	0.2	2.9	5.0	2.5	5.7	5.6	45%	-11%	57%	12%	-18%	-53%	86%	37%	95%	79%	25%	8%	0.42	1.40
FX Global Trend	- 0.1	2.3	4.4	2.0	3.3	6.4	46%	-12%	59%	10%	-24%	-53%	87%	48%	95%	75%	21%	7%	0.35	0.72
Bond Trend	- 0.3	- 0.1	- 1.6	- 0.3	- 4.2	2.7	-11%	78%	25%	52%	-27%	3%	64%	66%	91%	61%	15%	33%	0.41	- 1.43
Credit Carry	- 1.1	- 0.3	0.5	- 0.7	1.4	1.5	64%	-3%	69%	17%	-19%	-62%	87%	61%	94%	62%	38%	9%	0.56	0.85
Credit Trend	- 1.1	- 0.6	0.4	- 0.9	- 2.6	1.8	70%	-11%	69%	24%	-13%	-69%	92%	42%	91%	72%	40%	6%	0.28	- 1.35
Asset Allocator	- 1.3	- 0.2	1.0	- 0.6	3.4	3.3	60%	7%	73%	21%	-36%	-50%	34%	24%	40%	11%	26%	61%	0.75	1.04
FX LatAm Value	- 1.5	- 0.1	1.5	- 0.9	2.0	7.6	29%	15%	56%	29%	-42%	-40%	63%	70%	93%	86%	14%	18%	0.51	0.37
FX Global Value	- 3.2	- 1.8	- 0.7	- 2.2	- 2.0	8.7	27%	17%	58%	23%	-58%	-31%	55%	57%	78%	57%	39%	36%	0.28	- 0.33

- Our BBVA QIS monitor highlights a mixed performance across systematic strategies, with **FX carry strategies standing out as the strongest** performers. FX Global Carry and FX LatAm Carry delivered consistent positive returns over most horizons, supported by relatively strong Sharpe ratios, indicating an attractive risk-adjusted performance.
- The **Asset Allocator SMART strategy also shows stable returns** and one of the highest Sharpe ratios, suggesting strong diversification benefits. In contrast, **trend strategies show more mixed results**. While FX Global Trend produced moderate gains, bond and credit trend strategies have weaker momentum and lower Sharpe ratios, reflecting less favourable directional market conditions.
- Finally, **value strategies remain the weakest performers**, with FX Global Value delivering negative returns and low risk-adjusted performance over most time horizons.

2. FX Trend Focus

Trend back in focus

Trend back in focus: the recovery of trend strategies have been stalled by the latest geopolitical tensions in the Middle East. While Trend strategies do provide inherent crisis protection, these models need some time to adjust to identify new trends in the prevailing market regime. The Bloomberg CTA benchmark index peaked in April 2024 and has been on a downtrend since then through to August of last year. After the rebound over the last six months to near its 2024 highs, the trend strategies are showing some correction. Looking at the cross-asset trend, the FX trend has fared the best amidst renewed market volatility. This is also because the BBVA FX Trend strategy attempts to provide investors with trend risk premia beyond just the trend in the USD. As a result, our construction methodology has generally proven to be superior to our competitors with a larger weighting of the USD trend amidst sudden dollar strength. Despite the tensions in the Middle East, we think the FX trend has room to continue to outperform the risk premia trends in other asset class. This is because the fundamental driver of FX trend has been the continued rates differential between EM and DM given the structural underweight position of EM fixed income assets in investor portfolios. We believe these drivers will remain intact whatever the final outcome in the Middle East.

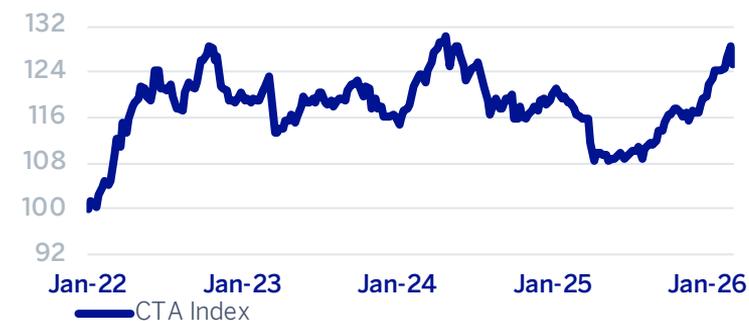
BBVA TREND RISK PREMIA PERFORMANCE

Source: Bloomberg and BBVA Global Markets Strategy



CTA PERFORMANCE

Source: Bloomberg and BBVA Global Markets Strategy



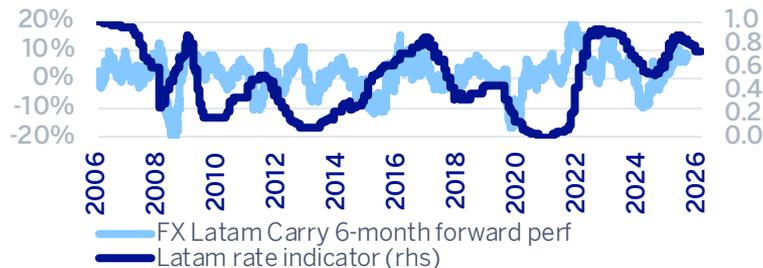
FX carry vs. trend

FX carry – we highlighted our preference for the BBVA FX Carry strategy in multiple publications last year. We still believe that the strong momentum in carry strategies, and in particular FX carry, should remain intact this year. We see the current environment of strong flow momentum into emerging market bonds combined with still-elevated interest-rate differentials as a key driver of performance going forward. Carry strategies directly benefit from these rate gaps, as investors borrow in low-yielding currencies and invest in higher-yielding ones to capture the spread. This dynamic should remain supportive as global investors continue to search for yield and diversification.

FX Trend – this strategy benefits from some of the same fundamental drivers that underpin our preference for FX Carry. Flow momentum remains the key determinant of trend strategy performance and has continued broadly uninterrupted over the last twelve months. Given the still-elevated interest-rate differentials between EM and DM economies, we believe these flows can continue despite the geopolitical tensions in the Middle East. The main risk to this view is still a potential return of tariff-related uncertainty, which could disrupt global trade dynamics and weaken market momentum. However, recent developments have reduced some of the most severe tariff risks to the global economy. In addition, LatAm economies remain relatively insulated from energy price shocks, unlike Europe, as Brazil and Mexico are both major oil producers and could benefit from a higher-for-longer energy price environment, supporting regional capital flows and currency stability.

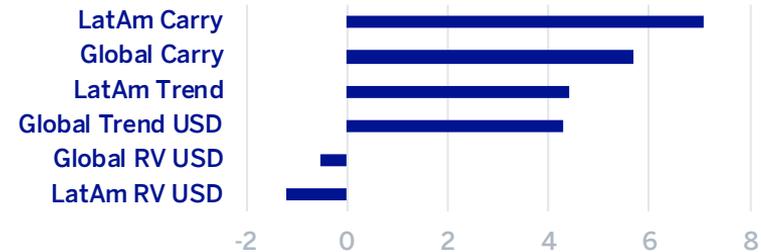
LATAM RATE INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



BBVA FX CARRY (%)

Source: Bloomberg and BBVA Global Markets Strategy



Trend benefits from flows

Trend benefits from flows: as previously discussed, EM bond funds have seen substantial inflows over the last 12 months. For trend strategies to work for long periods, persistent flows always tend to be the key driver. We have seen both active and passive funds increasing their allocations to EM bonds. In addition, we see the same trend amongst both retail and institutional investors. EM bond funds saw substantial outflows in the post-COVID world as the rates differential between EM and DM central banks reached near zero with global central banks rushing to ease monetary policy to fight COVID-related economic disruption. Over the last twelve months, investors have looked to reduce their underweight positions. As a result, while EM funds have seen substantial inflows, cumulative flows have remained negative over the last five years across investor classes, hence we think these inflows could last for longer. It is important to note that LatAm funds have seen more inflows than other global emerging markets.

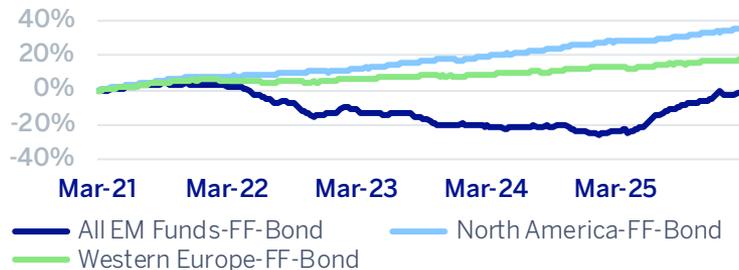
LATAM HAS RECENTLY BEEN THE MAIN BENEFICIARY

Source: EPFR and BBVA Global Markets Strategy



INSTITUTIONAL INVESTORS BUYING EM BONDS

Source: EPFR and BBVA Global Markets Strategy



PASSIVE FUNDS ARE ALSO SEEING INFLOWS

Source: EPFR and BBVA Global Markets Strategy

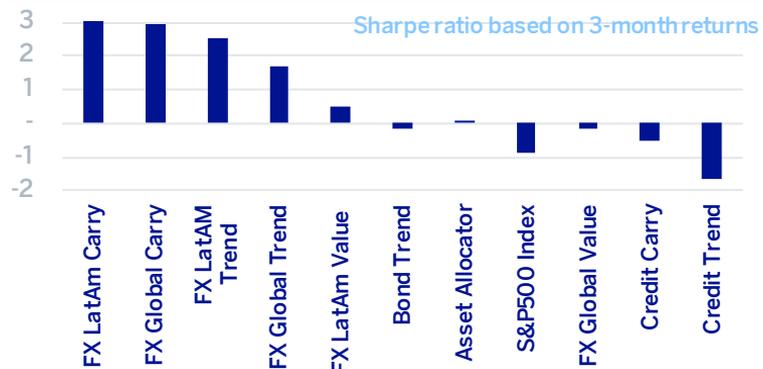


Why now?

FX trend strategies are becoming increasingly attractive: the current macro and market backdrop suggests that FX trend strategies are becoming increasingly attractive, particularly as financial conditions tighten and geopolitical uncertainty rises. Our BBVA Financial Conditions Index (FCI) has recently moved close to critical levels, rising to its highest point since April last year. Although the index remains slightly negative, the ongoing Middle East tensions risk pushing it into positive territory, which has historically been associated with a shift in performance in favour of the FX trend. When our FCI moves from negative levels toward 0–0.2x, market volatility tends to rise, and directional macro forces begin to dominate asset price movements. While volatility has increased sharply in equity markets, movements in FX, rates and credit volatility have so far lagged. Historically, carry strategies tend to perform best when volatility is declining or stable, whereas trend strategies perform better when volatility is rising and markets start to move directionally. Unlike carry strategies, which rely on relatively stable market conditions and can suffer during sharp volatility spikes, trend strategies are inherently convex - their performance often improves when markets experience strong directional moves. This convexity makes them particularly valuable during periods of macro uncertainty or geopolitical stress.

BBVA QIS STRATEGY SHARPE RATIOS

Source: Bloomberg and BBVA Global Markets Strategy



QIS RETURNS BASED ON THE CURRENT FCI

Source: Bloomberg and BBVA Global Markets Strategy

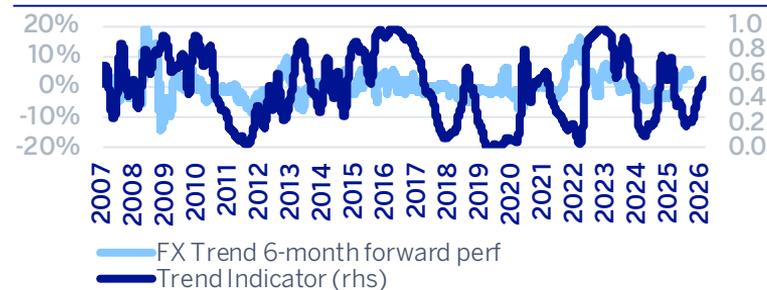


FX Trend: leading signal

Trend signal: 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. This indicator is currently suggesting strong forward returns. Our trend signal for both FX LatAm Trend and FX Global Trend is currently suggesting a positive outlook for FX trend strategies. Given the biggest risk facing the global economy is still related to an energy price shock, we believe the BBVA FX LatAm Trend could be more insulated from geopolitical tensions as LatAm economies could be marginal beneficiaries of the oil price shock.

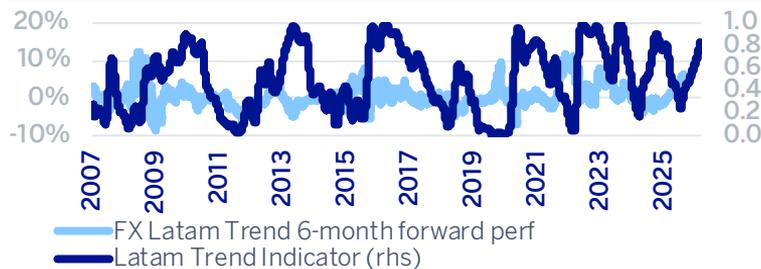
FX TREND INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



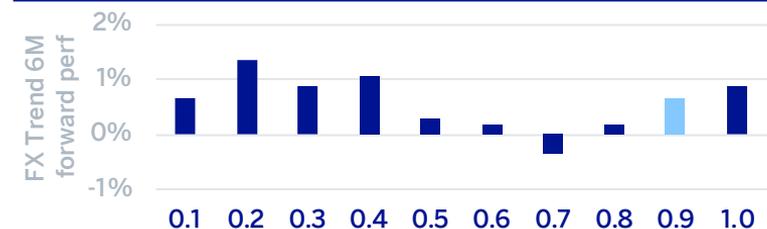
FX LATAM TREND INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



THE FX LATAM TREND INDICATOR SUGGESTS NEGATIVE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



BBVA FX LatAm Trend (BBFXLMTU)

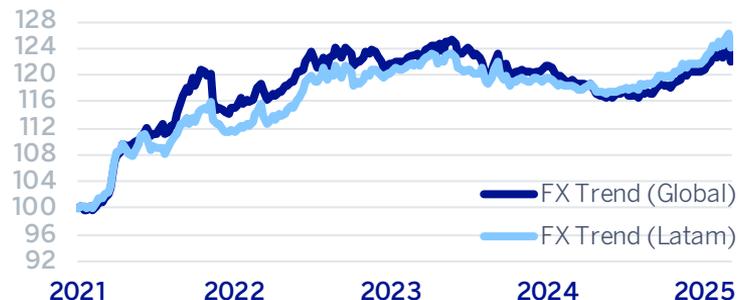
Our FX Trend strategy aims to capture the trend risk premia generated by changing macro and micro economic conditions, by taking long/short positions in fourteen pairs of most liquid and non-pegged FX markets.

- Uncorrelated market returns notably in a risk-on environment
- Efficient and transparent way to capture the Trend Risk Premia in FX
- Three portfolios to capture Trend Premia in G8, Global and LatAm

- Long/Short time series investment strategy
- Investment universe: fourteen most liquid currencies
- Z-score indicators with Short-Term (2m), Medium-Term (6m) and Long-Term (12m) are used to determine the signal
- Dynamic weights based on volatility to combine Z-Score indicators
- Constituents are equally weighted
- BBFXGMTU – Global
- BBFXLMTU - LatAm

BBVA FX TREND INDEX

Source: Bloomberg and BBVA Global Markets Strategy



KEY METRICS (net of charges)

Source: Bloomberg and BBVA Global Markets Strategy

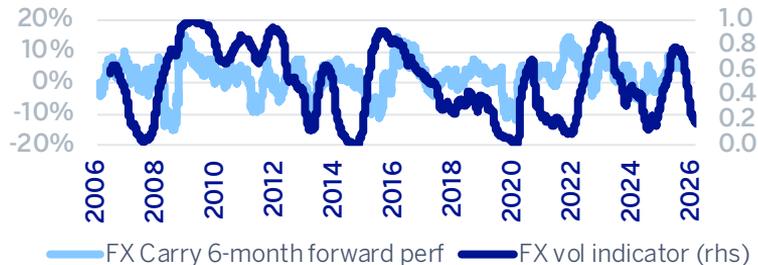
	Full History	10Y	5Y	1Y
Annual Excess Return	1.50%	1.20%	3.40%	-0.90%
Realised Volatility	7.20%	5.80%	4.70%	3.00%
Maximum Drawdown	-21.50%	-21.50%	-21.40%	-8.10%
Sharpe Ratio	0.2	0.2	0.7	-0.3

4. FX risk premia

FX carry – global

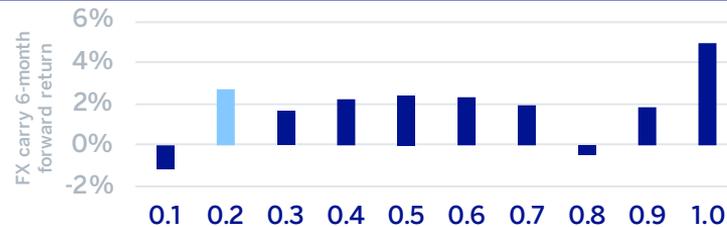
FX VOL CARRY INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



THE FX VOL INDICATOR SUGGESTS AVERAGE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



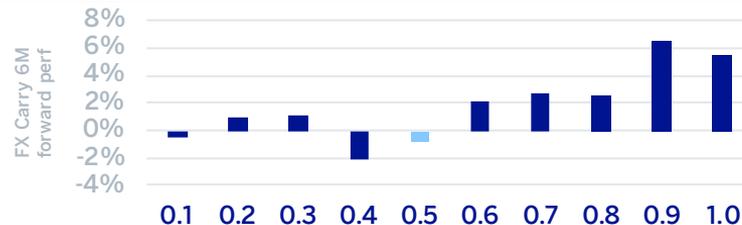
PPP INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



THE PPP INDICATOR SUGGESTS NEGATIVE RETURNS

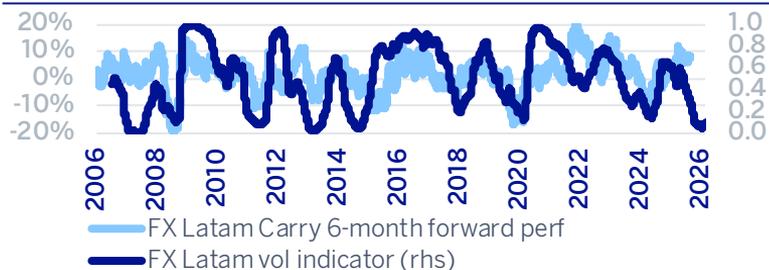
Source: Bloomberg and BBVA Global Markets Strategy



FX carry – LatAm

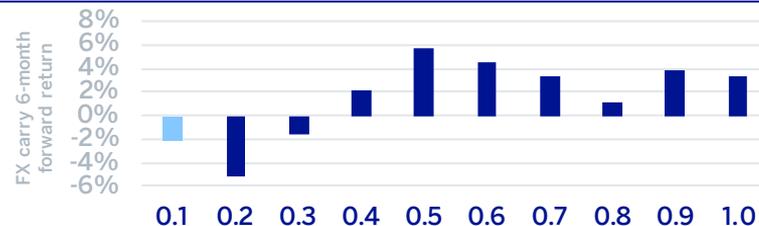
FX LATAM VOL CARRY INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



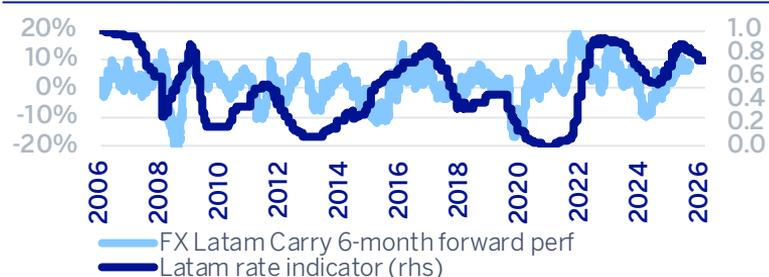
THE FX LATAM VOL INDICATOR SUGGESTS NEGATIVE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



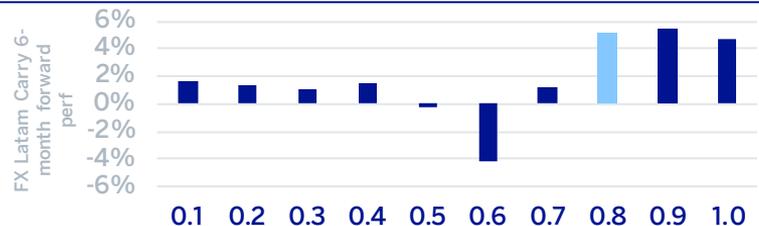
LATAM RATE INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



THE LATAM RATE INDICATOR SUGGESTS STRONG RETURNS

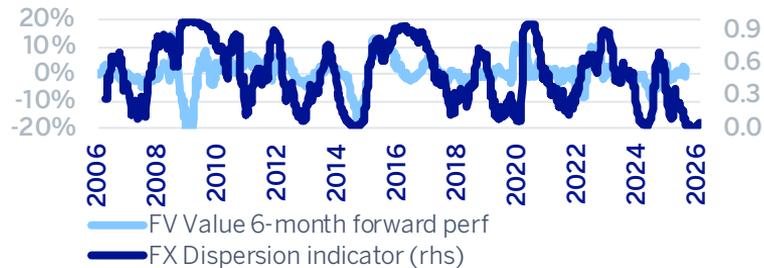
Source: Bloomberg and BBVA Global Markets Strategy



FX value – global

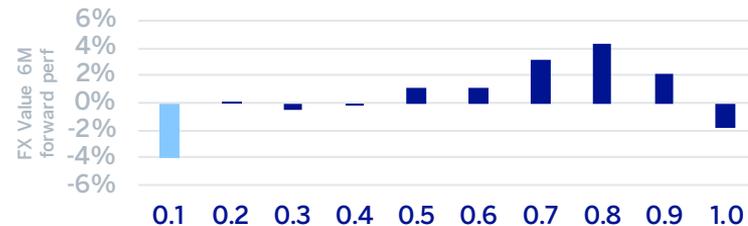
FX DISPERSION INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



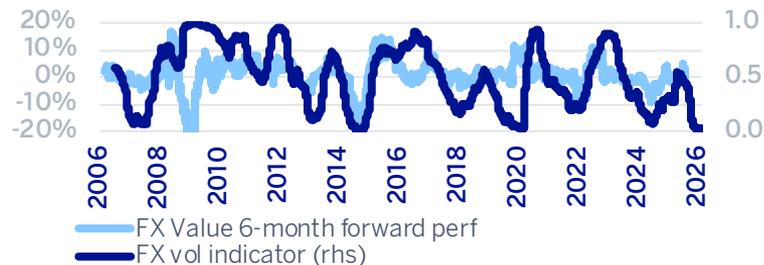
THE FX DISPERSION INDICATOR SUGGESTS NEGATIVE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



FX VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



FX VOL INDICATOR SUGGESTS NEGATIVE RETURNS

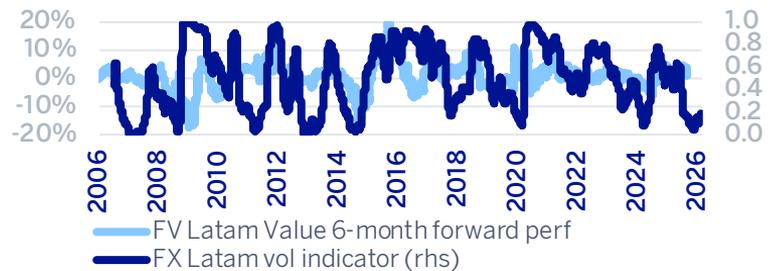
Source: Bloomberg and BBVA Global Markets Strategy



FX value – LatAm

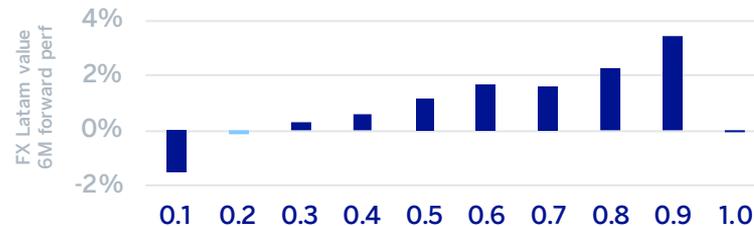
FX LATAM VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



THE FX LATAM VOL INDICATOR SUGGESTS NEGATIVE RETURNS

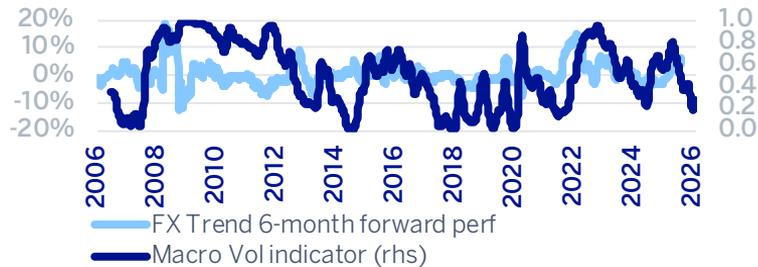
Source: Bloomberg and BBVA Global Markets Strategy



FX trend – global

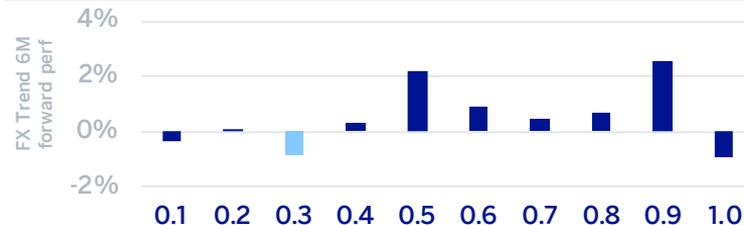
MACRO VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



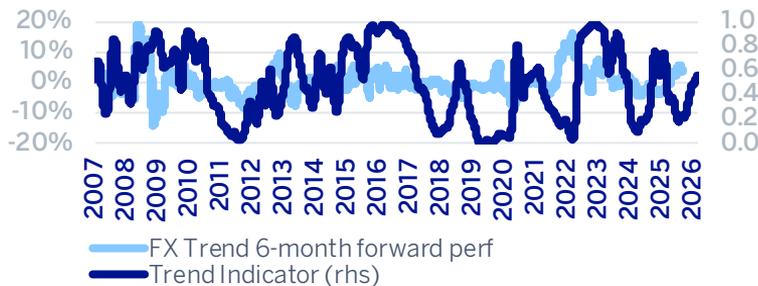
THE MACRO VOL INDICATOR SUGGESTS NEGATIVE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



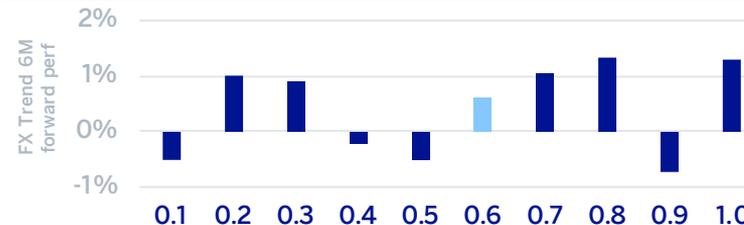
FX TREND INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



THE FX TREND INDICATOR SUGGESTS POSITIVE RETURNS

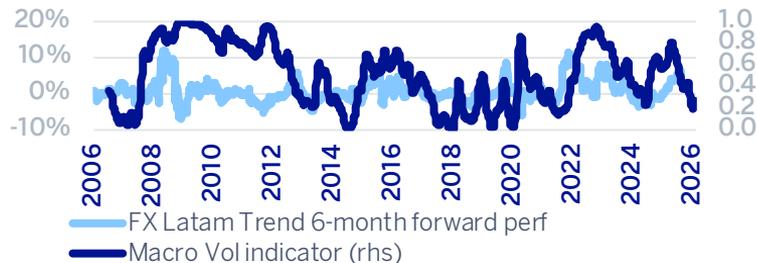
Source: Bloomberg and BBVA Global Markets Strategy



FX trend – LatAm

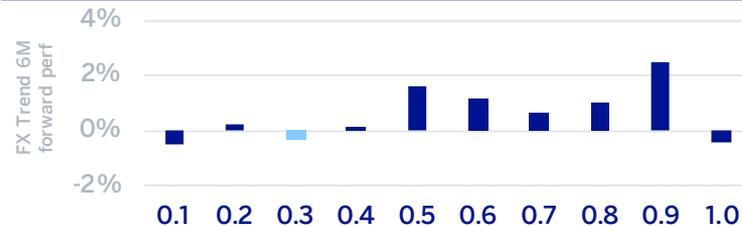
MACRO VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



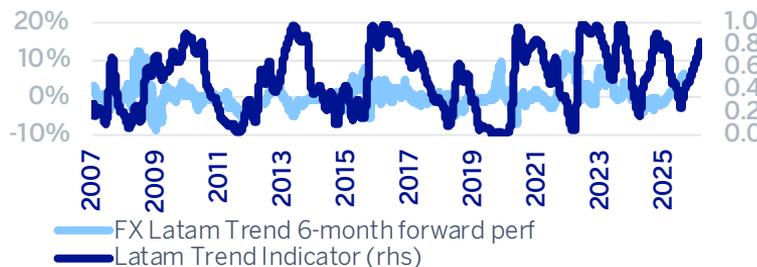
THE MACRO VOL INDICATOR SUGGESTS NEGATIVE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



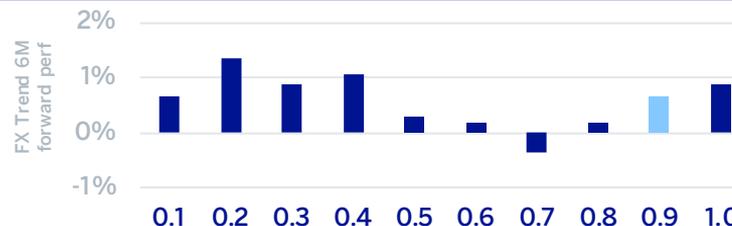
FX LATAM TREND INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



THE FX LATAM TREND INDICATOR SUGGESTS NEGATIVE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy

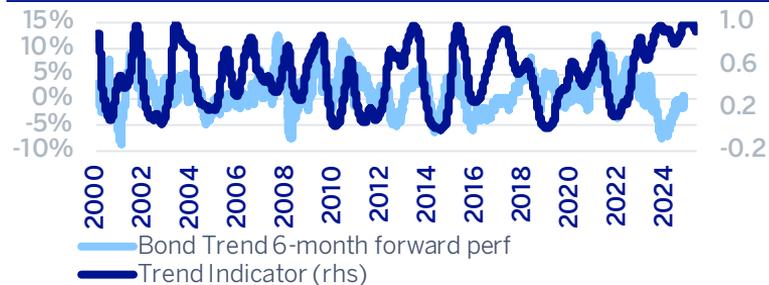


4. Bond and credit risk premia

Bond trend

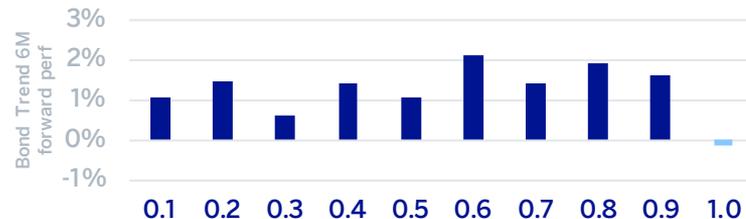
BOND TREND INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



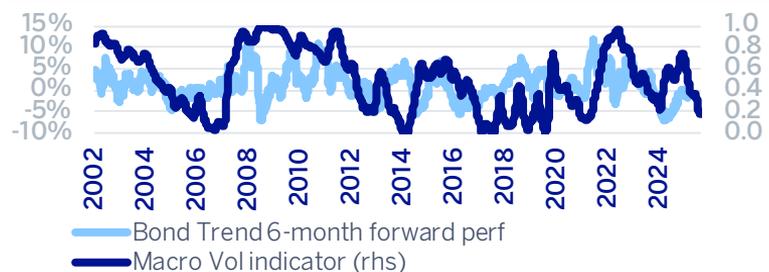
THE BOND TREND INDICATOR SUGGESTS MUTED RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



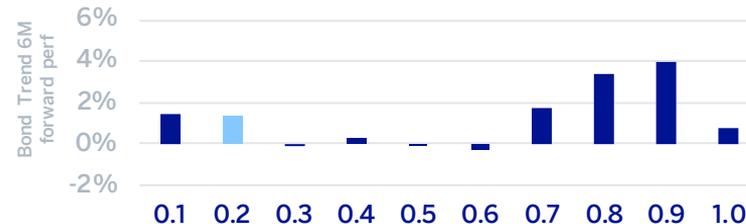
MACRO VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



THE MACRO VOL INDICATOR SUGGESTS AVERAGE RETURNS

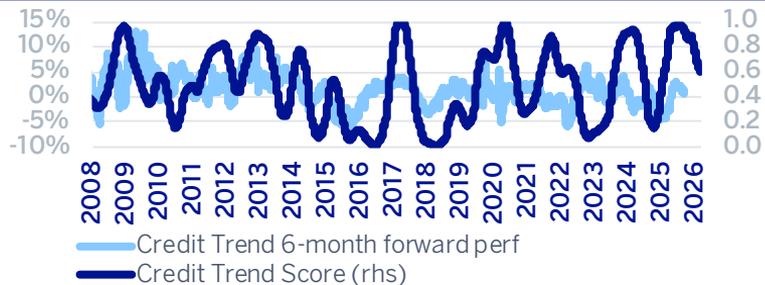
Source: Bloomberg and BBVA Global Markets Strategy



Credit trend

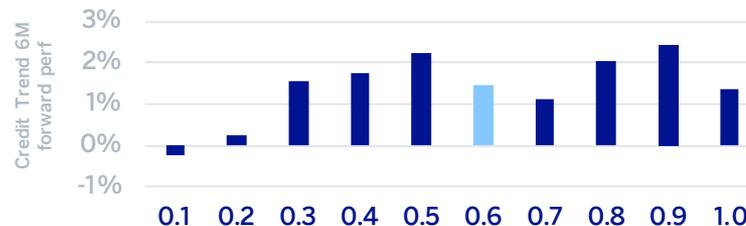
CREDIT TREND INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



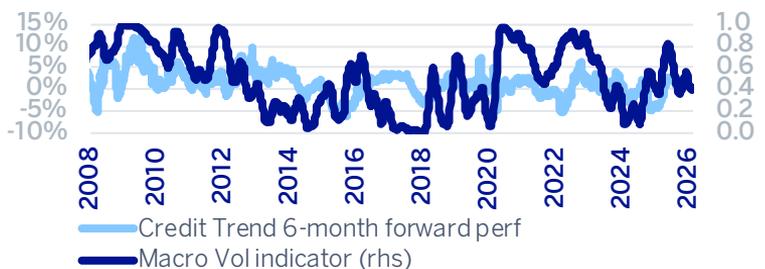
THE CREDIT TREND INDICATOR SUGGESTS AVERAGE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



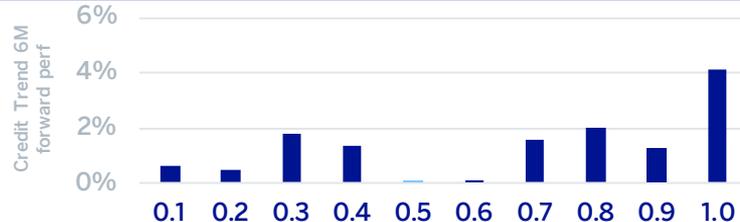
MACRO VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



THE MACRO VOL INDICATOR SUGGESTS MUTED RETURNS

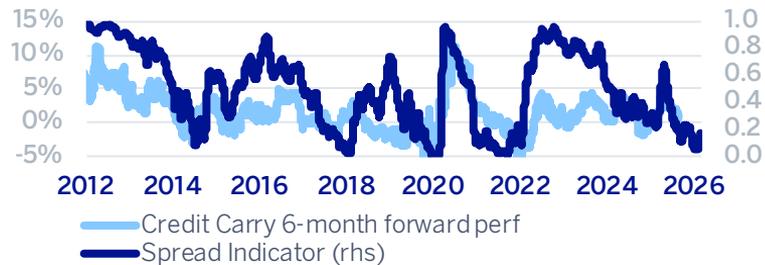
Source: Bloomberg and BBVA Global Markets Strategy



Credit carry

CREDIT SPREAD INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



THE CREDIT SPREAD INDICATOR SUGGESTS LIMITED RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



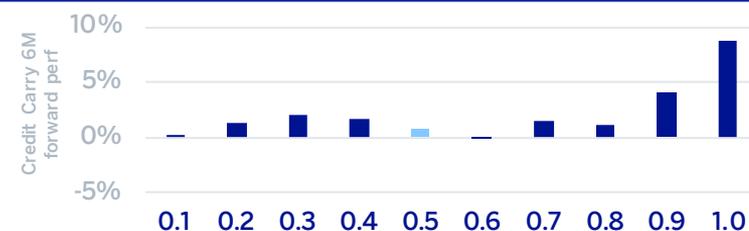
MACRO VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



THE MACRO VOL INDICATOR SUGGESTS ONLY MUTED RETURNS

Source: Bloomberg and BBVA Global Markets Strategy

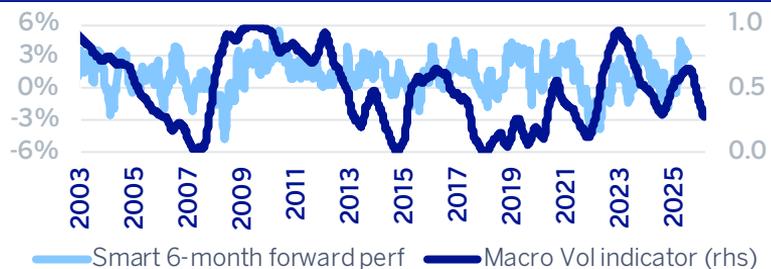


5. Asset allocator

Asset allocator – SMART

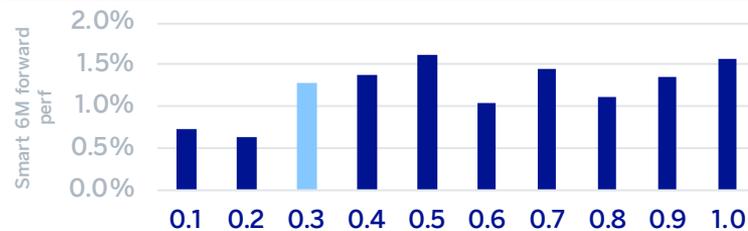
MACRO VOL INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



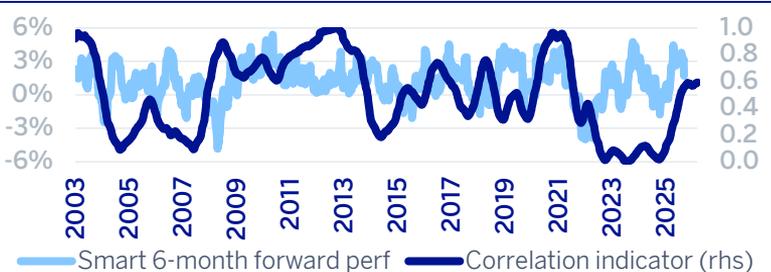
THE MACRO VOL INDICATOR SUGGESTS AVERAGE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



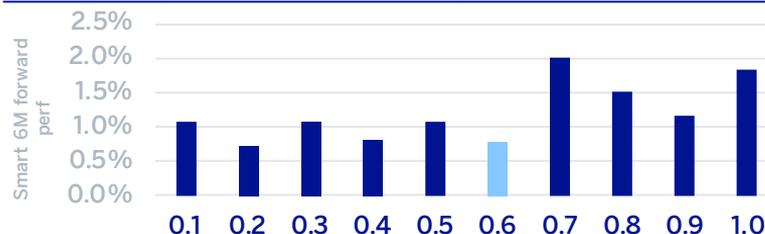
CORRELATION INDICATOR

Source: Bloomberg and BBVA Global Markets Strategy



THE CORRELATION INDICATOR SUGGESTS AVERAGE RETURNS

Source: Bloomberg and BBVA Global Markets Strategy



6. Appendix

BBVA risk-premia framework

- **Fixed income risk premia:** this is our risk-premia publication covering risk-premia strategies in FX, bonds, credit and our asset allocator. The purpose of this publication is to analyse BBVA's risk-premia strategies and provide a framework for our readers to select the best risk premia in the current uncertain environment based on our macro framework. To rank the risk-premia strategies, we comply with the following framework.
 - For each risk-premia strategy, we have identified the one or two most relevant leading indicators that have historically predicted returns for the respective strategy. We have tested the plentitude of macro indicators and only selected the ones where we feel it makes the most macro sense and where we see evidence of high predictability in terms of forward returns.
 - Based on our leading indicators, we identify whether the current environment is favourable for “modest”, “average” or “strong” returns for each of our risk-premia strategies. This is driven by how successful each indicator has been in predicting the forward returns of each strategy in addition to the current signal from these indicators.
 - See the index description on slides 37 &38 for the details of each indicator that we have used to predict the performance of our 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 the first section for the ranking in the current market environment.
 - 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 important drivers of performance.

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 remained low recently despite geopol. risks. Our indicator currently forecasts avg 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 has reduced suggesting negative 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 remained low recently despite geopolitical risks, which suggests negative 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 has recently collapsed, suggesting negative 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. The FX vol has remained low recently despite risks, which suggests negative forward returns.
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 remained low recently despite risks, which suggests muted forward looking returns.
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 remained low recently despite geopolitical risks, triggering a negative 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. Currently this indicator is suggesting strong forward returns.
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 remained low recently despite geopolitical risks, triggering a negative 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 recent trend tends to be a good predictor of the forward trend. Currently this indicator is suggesting strong returns.

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 remained low recently despite geopolitical risks, triggering a neutral 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. Currently this indicator is suggesting strong returns.
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, but still suggests a neutral 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. Despite the recent spike in HY/IG spreads, the spreads remain low and hence the strategy is looking neutral 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, but still suggests a neutral signal for trend 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 remained low recently despite geopolitical risks, 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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