

INVESTMENT NAVIGATOR

Asia Edition



BNP PARIBAS
WEALTH MANAGEMENT

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INVESTMENT NAVIGATOR ASIA

Navigating today's higher yields environment

Global bond yields have surged to multi-decade highs in recent weeks. Some investors concern about continued rise in long-end yields, while some investors have started to “nibble” on bonds to lock in higher yields from quality bonds.

In this *Investment Navigator – October 2026 Edition*, we address three key questions:

1. What are the key drivers of higher yields?



2. What is the medium-term outlook for bond yields?



3. How could investors navigate this higher yields environment?



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1. What are the key drivers of higher yields?



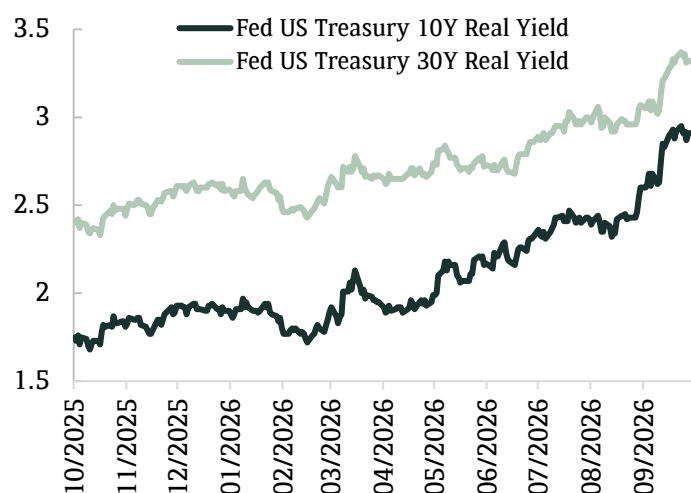
Global bonds continue to sell off, with US Treasury 10-year and 30-year yields hitting 24-year highs of 5.32% and 5.71% respectively. Additionally, French government bond spreads relative to Germany have also widened, nearly hitting levels that were last seen during the European sovereign debt crisis in 2012. UK 30-year gilt yields briefly rose beyond 6%; a level last recorded in the 1990s.

The primary driver of the year-to-date move in yields has been the repricing of central bank policy, as expectations shifted from cuts to hikes due to elevated energy prices and inflation concerns.

That said, rising real yields (nominal yield minus inflation rate) and higher term premium (extra return investors demand for holding long-term bonds) have played an increasingly important role in driving long-end yields higher since late August, following Fed Chair Warsh's hawkish tone at Jackson Hole (Figures 1 and 2).

Figure 1:
US real yields were up significantly in September

US real yields (%)



Source: Bloomberg, BNP Paribas WM, as of 12 Oct 2026.

What are the key drivers behind the rise in real yields recently?

While medium-term and long-term inflation expectations have remained largely flat, solid economic growth and AI capex boom are major drivers of real yields. They have created significant additional demand for capital, particularly massive hyperscaler issuance to fund the AI-related infrastructure, leading to a repricing of the real cost of capital.

What are the key drivers of higher term premium since September?

The primary drivers are heightened fiscal concerns, particularly in France, the UK, and Japan, and persistent sovereign debt supply pressures. Additionally, changes in the Fed's communication style have fueled concerns over its credibility; specifically, under Fed Chair Warsh, the Fed has shifted toward less frequent public communication and limited forward guidance. While this is intended to prevent over-signaling, investors now demand a higher term premium to compensate for the reduced visibility into the Fed's long-term policy path.

Figure 2:
US term premium rose sharply in September

US Treasury 10Y term premium (%)



Source: Bloomberg, BNP Paribas WM, as of 12 Oct 2026.

2. What is the medium-term outlook for bond yields?



We believe global yields are overshooting their fair value in the near term, and will normalise in the medium-term for the following reasons:

(1) Higher real yields slow growth

The US 10-year Treasury nominal yield and real yields have risen over 100bps and over 90bps year-to-date. It is estimated that a 100bp term premium shock could reduce GDP by 1.5-2.0 percentage points (pp) over 8 quarters.

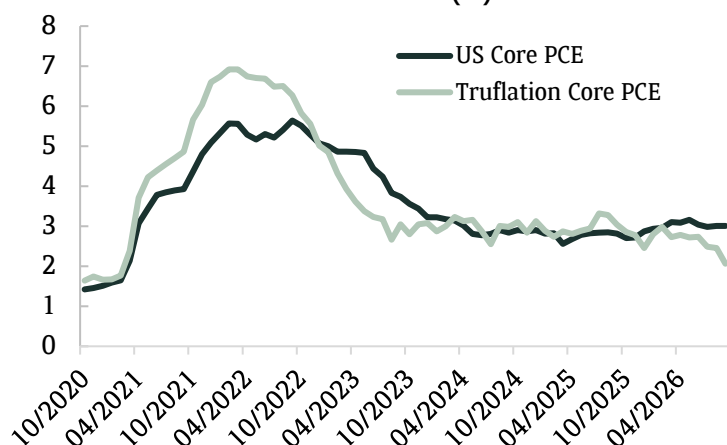
(2) Inflation is supply-driven, not demand-driven

Higher energy prices and AI capex boom are supply-driven inflationary pressures. Our base case scenario assumes Brent oil will decline to USD 65 in 12 months, contingent upon a resolution in the US-Iran conflicts after the US mid-term elections.

Slower capex growth and a higher base could also lead to decelerating inflation in AI hardware and semiconductors next year. Truflation Core PCE (real-time daily inflation indicator) shows a disinflationary trend (Figure 3). On the demand side, US wage growth is trending downward, and there is no sign of a wage-price spiral (Figure 4).

Figure 3:
Truflation Core PCE shows disinflationary trend

US Core PCE vs Truflation Core PCE (%)



Source: Bloomberg, BNP Paribas WM, as of 12 Oct 2026.

(3) Markets likely overprice central bank rate hikes

Markets have currently priced in three additional Fed hikes by the end of 2027, and two to three more ECB hikes by September 2027. We expect two more Fed hikes (one in December 2026 and one in January 2027) after which the cycle will be done, and only one more ECB hike in December 2026.

(4) "Bond vigilantes" are back

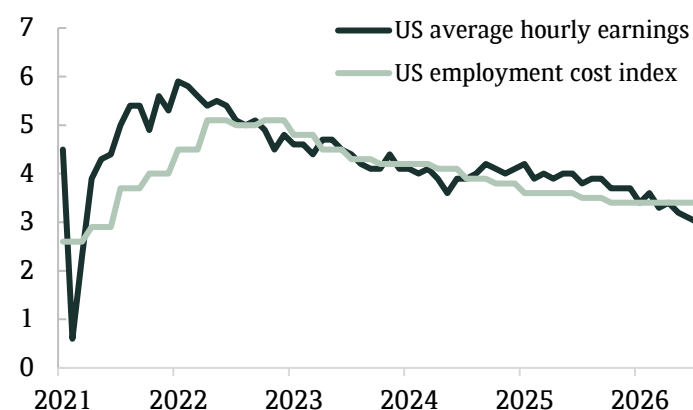
"Bond vigilantes" (bond investors who sell sovereign bonds to protest on fiscal unsustainability) put intense pressure on governments to pursue fiscal consolidation. If not, the governments would face skyrocketing debt-servicing costs.

(5) Higher yields start to attract demand for bonds

Inflows to US Treasury funds reached their highest levels since April 2025 over the past few weeks. The recent US Treasury 10-year and 30-year auctions also saw strong demand, especially from foreign investors.

Figure 4:
There is no wage pressure in the US

US average hourly earnings (YoY%) and US employment cost index (YoY%)



Source: Bloomberg, BNP Paribas WM, as of 12 Oct 2026.

3. How could investors navigate this higher yields environment?



We are currently neutral on US Treasuries and we prefer short maturities. We have revised our 12-month target for the US Treasury 10-year yield upward to 4.75% from 4.5%. We believe a further market push towards 5.50% would offer a more favourable entry point.

In the Eurozone, the 10-year German government bond yield has also risen significantly. We have raised our 12-month target from 2.75% to 3%,

though we see limited further upside from current levels. We remain Positive on core Eurozone government bonds.

We have upgraded UK government bonds to Positive and have raised our 12-month target from 4.4% to 4.65%. While current levels are above our long-term fair value estimates, we are increasingly confident that the government will take the necessary steps to stabilise debt dynamics.

Investors could navigate the “higher-for-longer” yield environment via:



Taking advantage of higher yields to gradually accumulate fixed income exposure and lock in higher yields, particularly focusing on high-quality bonds



For investors who worry about near-term market volatility could focus on income strategies through structured solutions (take advantage of high volatility) and dividend stocks



Diversification through hedge fund strategies



Overview of our CIO Asset Allocation for October 2026

	Views		Constituents	We like	Comments
	Current	Prior			
EQUITIES	+	=	Markets	US, Japan, EM (LATAM, China A, Taiwan, South Korea)	■ Upgrade US Equities to Overweight ■ Downgrade EU to Underweight ■ Remove preference for US SMID Caps
			Sectors	Global Technology, Healthcare, Industrials and Mining, EU Utilities	■ Upgrade US and EU technology to Overweight ■ Downgrade EU banks to Neutral
			Styles/Themes	Megatrend Themes	■ Diversification, income, AI, infrastructure, commodities and Asian themes
BONDS	=	=	Govies	EUR, GBP	■ Upgrade GBP govies to Positive ■ Remain Positive on core Eurozone govies, favouring 7-10 years maturities ■ Remain Neutral on US govies, favouring maturities up to 5 years ■ Revise up 12-month US 10Y yield target to 4.75%
			Segments	EUR, GBP Investment grade	■ Upgrade GBP investment grade (IG) corporate bonds to Positive ■ Remain Positive on EUR IG ■ Remain Neutral on USD IG ■ Remain Neutral on High Yield and EM bonds
CASH	=	=			
COMMODITIES	+	+		Gold Silver Copper Aluminium	Precious Metals: ■ Silver – Positive (12M USD 80/oz) ■ Gold – Positive (12M USD 5,000/oz) Oil: ■ Brent Oil – Negative (12M USD 65/barrel) Base Metals: ■ Copper – Positive (12M USD 15,000/metric tonne) ■ Aluminium – Positive (12M USD 3,800/metric tonne)
FOREX			EURUSD		■ 12-month target at 1.20
			USDJPY		■ 12-month target at 155
ALTERNATIVE	+	+		Hedge funds (global macro, event driven)	■ Remain Neutral on long-short equities and relative value

Note: + Overweight / = Neutral / - Underweight

GDP & CPI Forecasts

		GDP (YoY%)			CPI (YoY%)		
		2025	2026f	2027f	2025	2026f	2027f
Developed	US	2.1	2.2	2.3	2.7	3.4	2.3
	Japan	1.2	1.0	1.2	3.1	2.0	2.5
	Eurozone	1.3	1.1	1.5	2.1	3.0	2.8
	UK	1.3	1.2	1.3	3.4	3.2	3.2
North Asia	China	5.0	4.6	4.5	0.0	1.0	1.2
	Hong Kong*	3.5	2.4	2.4	1.4	2.1	1.8
	South Korea	1.1	3.2	2.3	2.1	2.7	2.2
	Taiwan	8.8	11.6	4.7	1.7	2.2	2.2
South Asia	India	7.8	6.7	6.9	2.1	5.0	4.6
	Indonesia*	5.1	5.0	5.1	1.9	3.0	2.6
	Malaysia*	5.2	4.7	4.3	1.4	1.9	2.0
	Philippines*	4.4	4.1	5.8	1.7	4.3	3.2
	Singapore*	5.0	3.5	2.7	0.9	2.3	1.9
	Thailand*	2.4	1.5	2.1	-0.1	0.9	1.0

Source: BNP Paribas Group Economic Research, BNP Paribas Global Markets forecasts as of 30 September 2026.

Note: India's forecasts are for the fiscal year (April–March).

* IMF data and forecasts as of 30 September 2026.



GROWTH

- Global expansion remains on a solid footing, driven by resilient consumer spending, improving business sentiment and a surge in AI-driven capital spending, while the technology sector's credit spreads should be closely monitored for signs of further stress from ongoing debt issuance.
- China's economic growth continues to slow, dragged by the ongoing property downturn and weak domestic demand. Beijing has announced plans to inject US\$54 billion into its financial sector to bolster banks and insurers, amid signs that the world's second largest economy is struggling to escape weak growth.



INFLATION

- In the absence of a clear catalyst to de-escalate the US-Iran conflict, elevated energy costs are expected to sustain inflationary pressure in the near term, but importantly, are not expected to undermine the overall resilience of global growth.
- Central banks face a growing trade-off between controlling inflation and maintaining debt sustainability. Political pressures may push them to tolerate higher inflation, as seen in the US, the UK, and Japan, where core inflation has remained above 2% for extended periods.



▲ OVERALL GLOBAL: OVERWEIGHT

COUNTRY		
Japan EM ▲ US	-	▼ EU
SECTOR		
Healthcare Industrials ▲ Technology	Comms. Materials Consum. Discre. Financials Utilities Real Estate	Consumer Staples Energy

▲ OVERALL ASIA: OVERWEIGHT

COUNTRY		
China A-shares South Korea Taiwan	China H-shares India Southeast Asia	-
SECTOR		
Comms. Consum. Discre. Technology Healthcare	Materials Real Estate Financials Industrials Energy	Utilities Consumer Staples

- **Don't fear the mid-terms** – Albeit the upcoming mid-term elections in the US could cause some volatility, history suggests that investors shouldn't worry too much. Since 1950, the S&P 500 has traded higher 12 months after every mid-term election, returning 16.6% on average.
- Equities continue to show a remarkable level of resilience against rising rates. This is mainly driven by the fact that earnings are climbing even faster. We remove our preference for US SMID CAPS.
- **Upgrade US and EU technology to Overweight** – After the recent de-rating, the sector is now trading close to 5-year valuation lows, with the forward P/E ratio trading 1.15 standard deviation below its 5-year average. We consider this an attractive entry point into high-quality growth compounders that demonstrate an increasing capacity to monetise their AI investments.
- **Downgrade European Banks to Neutral** – The growing number of headwinds for European banks ranging from rising yields threatening credit quality and demand to increasing political risks is prompting us to book profits and reduce our sector exposure to Neutral. We are awaiting more attractive levels to re-engage.

		1-month (%)	YTD (%)	2025 (%)	Dividend Yield (%)	12M Fwd PE (x)	Trailing PB (x)	12M Forward ROE (%)	EPS Growth Past 12M (%)	EPS Growth 12M Fwd (%)
Developed	US	-0.6	11.6	16.9	1.1	21.8	5.0	41.0	44.7	38.3
	Japan	2.0	21.0	24.3	2.1	17.2	1.9	13.3	33.6	22.4
	Eurozone	-6.3	9.0	36.2	2.7	15.6	2.1	19.2	24.6	19.3
	UK	-6.2	6.2	35.6	3.1	12.3	2.1	20.3	34.2	30.0
North Asia	China	-6.2	-2.0	26.6	1.5	18.5	2.6	20.8	37.3	60.4
	Hong Kong	-4.3	-6.4	33.5	3.2	10.5	1.3	15.6	18.5	28.3
	South Korea	3.6	70.9	80.9	0.9	6.8	2.2	25.2	262.1	390.1
	Taiwan	4.6	66.1	36.8	1.5	23.4	4.7	34.5	67.9	70.6
South Asia	India	-7.5	-13.6	2.0	1.3	18.6	3.1	19.6	11.8	20.4
	Indonesia	-9.9	-44.9	8.8	2.7	10.0	2.2	17.1	9.4	7.9
	Malaysia	-5.6	1.0	15.8	3.5	15.2	1.6	12.6	21.2	7.9
	Philippines	-5.8	-13.5	-2.1	4.1	9.5	1.1	20.8	14.9	5.7
	Singapore	-2.8	19.9	37.2	3.9	17.0	1.5	13.4	11.4	5.5
	Thailand	-2.9	23.1	2.9	3.3	15.8	1.7	18.6	53.3	12.3

Source: Macrobond Indices in USD terms, BNP Paribas (WM), as of 30 September 2026.

OVERALL GLOBAL: NEUTRAL



Eurozone Govies
EUR IG
▲ GBP Govies & IG

US Treasuries
US IG
EMD (HC)
EMD (LC)
High Yield

-

OVERALL ASIA (USD): NEUTRAL



Japan
Singapore
Australia

South Korea
Hong Kong
India
China

Philippines
Indonesia

		Total Return (%)			Yield-to-Worst (%)
		1-month	YTD	2025	
Asia	Asia USD Bond	-2.0	-1.5	8.1	5.8
	Asia Local Currency Bond	-1.1	-5.2	9.7	4.6
	China	-1.5	-0.5	7.3	5.7
	Hong Kong	-2.0	-1.5	8.4	5.6
	India	-1.7	-0.1	9.6	6.3
	Indonesia	-2.9	-4.1	8.9	6.2
	Singapore	-1.6	-1.2	6.6	5.5
	South Korea	-1.2	-0.2	7.1	5.3
	Philippines	-3.1	-4.0	9.1	6.1
Other Regions	US 10-year Treasuries	-2.9	-4.2	7.8	5.2
	US Investment Grades (IG)	-2.6	-2.9	7.3	5.6
	US High Yield (HY)	-2.5	0.1	8.6	8.4
	Emerging Market USD Bond	-1.9	-1.2	8.3	6.1

Source: Barclays indices, Bloomberg, BNP Paribas (WM) as of 30 September 2026.

US Treasury 12-month Yield Targets (%)	2Y	5Y	10Y	30Y
	▲ 4.35	▲ 4.50	▲ 4.75	▲ 5.10

- **Fed:** During the September meeting, Kevin Warsh acknowledged that policy was too loose, and inflation remained too high. This was probably intended to signal to the markets that the concerns driving the rise in long-term Treasury yields had been noted. As oil prices and bond yields have continued to climb, we have decided to add one rate hike to our forecast. **We now expect the Federal Open Market Committee (FOMC) to raise rates in December 2026 and January 2027**, thereby unwinding the 2025 "insurance cuts" and returning the real policy stance to a roughly neutral level. In our base-case scenario, the FOMC would hike just enough to maintain a stable unemployment rate before pausing. We believe the markets' expectation of nearly four additional hikes over the next year is exaggerated.
- **ECB:** **We now forecast an additional hike in December 2026**, followed by an extended hold in mildly restrictive territory throughout 2027.

- **Govies:** US yields have sold off aggressively across the curve since mid-summer, with the 10-year yield rising by nearly 80bp. This trend has accelerated particularly over the last few weeks. The resilience of growth was further confirmed by a stronger-than-expected preliminary September Composite PMI index. Meanwhile, oil and gas prices have risen again. The primary driver of US yields remains the real yield, likely reflecting expectations of increased capital demand in the coming years. A higher term premium, growing deficits and debt have likely also contributed. Breakeven inflation remains stable, hovering at around 2.25%. **While we maintain that US yields are overshooting their fair value, we have increased our 12-month target from 4.50% to 4.75%.** Given the Fed's hiking cycle and no imminent cuts expected, investors should remain cautious and patient. A further market push towards 5.50% would offer a more favourable entry point.
- **Upgrade UK govies and UK IG bonds from Neutral to Positive** after rise in yields.



12-MONTH FOREX VIEW

😊	😐	☹️
EUR	GBP	AUD
CAD	NZD	CNY
MYR	TWD	INR
	PHP	SGD
	THB	JPY
		USD
		KRW
		IDR

- **USD:** The interest rate differential should favour the dollar, keeping the USD relatively strong in the short-term. Moreover, worries over the fiscal deficit remain key for the euro. In addition, the US as the world's largest oil exporter also leads to dollar strength as tensions in the Middle East remain.
- Nonetheless, we stay bearish on the dollar over the coming year, given structural headwinds such as expanding fiscal deficits and a gradual de-dollarisation.
- Accordingly, we change our 3-month EUR/USD target to 1.12 and keep our 12-month target at 1.20 (value of one EUR).

COMMODITIES

😊	😐	☹️
Gold		
Silver		
Base Metals	-	Oil

- **PRECIOUS METALS:** We maintain our 12-month price target of USD 5,000/ounce for gold and USD 80/ounce for silver and confirm our positive view on precious metals. Rising real yields keep both precious metals in a consolidation phase. A new leg higher for gold seems conditional on a correction in real yields.
- **OIL:** Despite the memorandum of understanding falling apart and the short-term risk of further escalation in the Middle East, we maintain our bearish view and our 12M target of USD 65/barrel for Brent.
- **BASE METALS:** We maintain our positive view on industrial metals and hold our 12-month price target at USD 15,000/MT for LME copper and at USD 3,800/MT for LME aluminium. Higher real yields will continue to be a headwind for copper and aluminium. At the same time, there are upside risks in the short-term, from extreme El Nino weather and potential strikes at the most important copper mines in Chili.

Forex Forecasts

		Spot	3-month		12-month	
		As of 30 Sep 2026	View	Target	View	Target
Developed	USD Index	101.45	=	101.9	-	96.3
	Japan	157.4	=	158	=	155
	Eurozone	1.133	=	1.12	+	1.20
	UK	1.327	=	1.33	+	1.38
	Australia	0.695	=	0.70	+	0.73
	New Zealand	0.563	=	0.57	+	0.60
	Canada	1.423	=	1.40	+	1.35
Asia Ex-Japan	China	6.709	=	6.70	=	6.60
	South Korea*	1,357	=	1,320	+	1,280
	Taiwan*	31.84	=	31.5	=	31.2
	India	95.83	=	95.0	=	95.0
	Indonesia*	17,870	=	17,900	-	18,500
	Malaysia*	4.080	=	3.97	+	3.85
	Philippines*	62.57	=	63.1	=	63.5
	Singapore*	1.277	=	1.27	=	1.24
	Thailand*	33.56	=	33.3	+	32.5

Source: BNP Paribas (WM) as of 30 September 2026.

*BNP Paribas Global Markets forecast as of 30 September 2026.

Note: + Overweight / = Neutral / - Underweight

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