

SUMMER EDITION (JUL & AUG) 2025

Investment Navigator

Asia Edition



US Tariffs: Are we nearing the end?

This edition of the Investment Navigator for July and August 2025 addresses the questions regarding investor concerns over the upcoming US tariffs on the 1st of August, touching on inflation and how that influences the US Federal Reserve's interest rate path. It also covers trade uncertainty and how to best navigate in such an environment.

Key Questions

- What is the current trade situation under Trump 2.0?
- How will the new US tariffs on 1st August impact inflation?
- How will the US tariff influence the Fed's interest rate path?
- Should investors be concerned about further tariff uncertainty?
- How should investors position to hedge against volatility?

COUNTDOWN



DAYS



HOURS



MINUTES

The US reciprocal tariffs announced on "Liberation Day" created a fair bit of market uncertainty. Since then, countries actively negotiating deals with the US, with the latest deadline being the 1st of August. Despite the recent volatility, markets have bounced back stronger. This suggests that we may be nearing the conclusion of the US trade tariff uncertainty.

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? What is the current trade situation under Trump 2.0?

No TACO (Trump Always Chicken Out) on Tariffs

Nearing the first extended tariff deadline on 9th July, US President Trump announced more aggressive tariffs across dozens of economies as well as on commodities. 1st August 2025 was announced as the new date where all proposed tariffs will go into effect, no further extensions from there on. Trading partners were essentially given an additional 3 weeks to secure a deal or be hit with more aggressive tariffs. Vietnam swiftly penned a deal with the US, with transshipment of goods as part of the clause. Since then, trade deals have accelerated, with the most recent being Japan, Philippines and Indonesia.

Additionally, the recent passing of the One Big Beautiful Bill Act (OBBA) also provided President Trump extra leverage on tariffs given that the tax cuts and fiscal plan has been passed. The latest budget surplus in the US (first since 2017) also adds further momentum to President Trump's agenda. Our base case on trade is for a 10% minimum tariff across all countries. However, given the importance of these tariffs for fiscal revenues and President Trump's position, we could end up seeing a baseline average reciprocal tariff rate of 15–20%, which is in-line with the deals announced thus far.

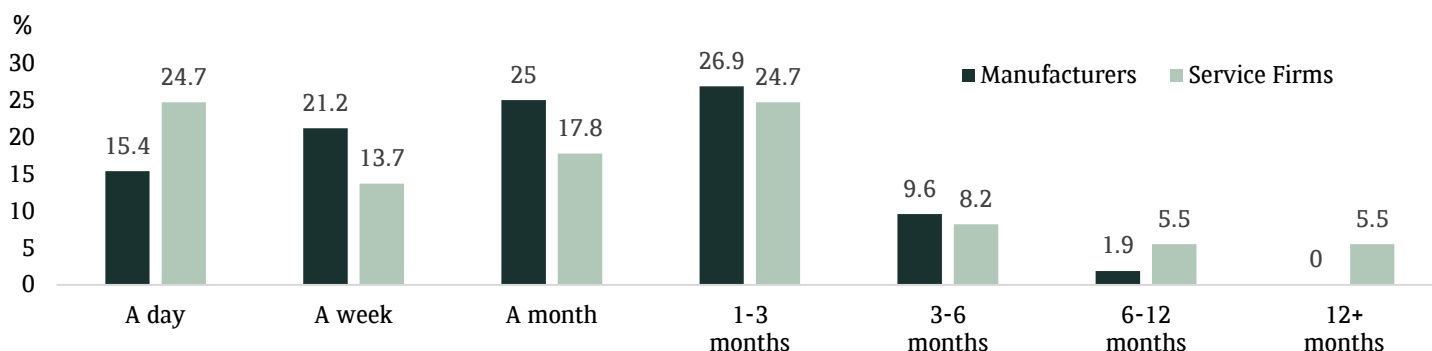
? How will the new US tariffs on 1st August impact inflation?

Tariff passthrough will be key

New tariffs will be collected from goods reaching the US shores on 1st August onwards. Current US inventories suggest that pre-tariff goods are likely to run off between June and August 2025. Tariff-focused surveys show that majority of impacted firms intend to increase prices swiftly, with a 1 to 3 months lag between cost hit and price action. Some may even plan to do so earlier, in anticipation of the costlier new inventory. In fact, the US June CPI report showed unambiguous evidence of tariff

pass-through to goods prices, though the overall print was limited by yet more weakness in discretionary services categories and vehicle prices. The magnitude of pass-through can also be key. All players including importer, exporter and consumer are likely to absorb some of the price hike. Overall, stronger pass-through and inflationary effects are likely to manifest in the July–September period. The upcoming inflation prints for July and August will likely confirm this.

FIGURE 1.
NY FED SURVEY TIME TO PASS-THROUGH
(% SHARE OF BUSINESSES)



Source: Bloomberg, BNP Paribas WM, as of 23 July 2025.

Past performance is not indicative of current or future performance.



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? How will the US tariff influence the Fed's interest rate path?

US Fed likely to cut rates in September and December this year

The Federal Reserve has always maintained their stance of a data dependent approach before further normalization of interest rates. As we draw closer towards the 1st August tariff extension deadline, the overall effective tariff rate by the US should be much clearer, which should be at its highest since 1943. As mentioned earlier, inflationary impacts are likely to manifest in Q3 this year, hence the next few months of inflation prints will give the Fed a clear indication on the

impact of tariffs on the economy. Within the Federal Reserve, some dovishness is developing, while rumours of replacing Fed Chair Jerome Powell has also fueled an increase in rate cut expectations. Overall, we continue to believe that the Fed is slightly behind the curve as of today. Hence, we are still of the view of two cuts this year, September and December 2025, before another two cuts in the first half of 2026, bringing us to a terminal rate of 3.5%.

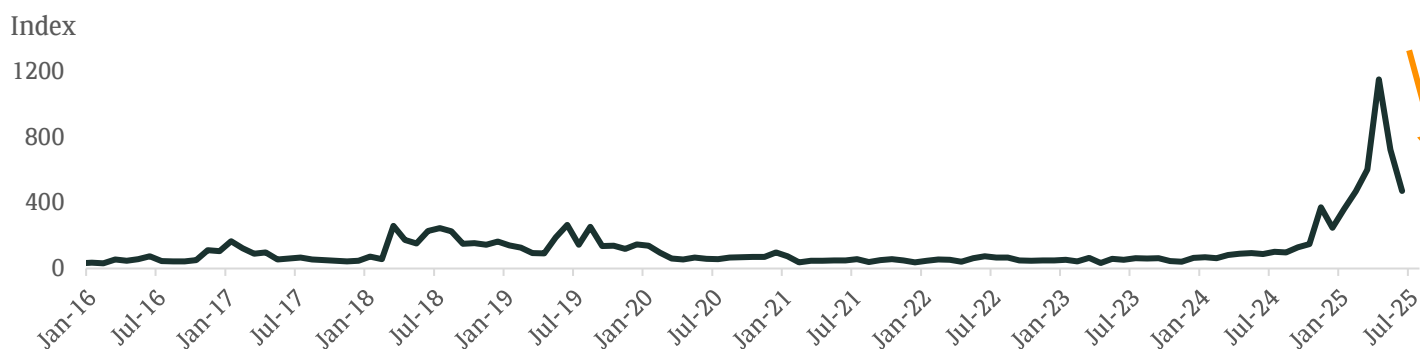
? Should investors be concerned about further tariff uncertainty?

Trade Policy uncertainty is coming down after peaking on 2nd April

Despite the increasing amount of headline news mentioning tariffs, we are beginning to see lower uncertainty over US tariffs. In fact, we are closer to the end than the start of the tariff saga. Trade uncertainty most likely peaked on 2nd of April, 'Liberation Day". The level of uncertainty has eased off significantly following positive developments between US and China. The trade truce with China could extend beyond August 12 as both countries continue to iron out sensitive topics revolving around rare earth metals and semiconductors export. We should continue to see a decrease in trade uncertainty as we gain more clarity on the levels of tariffs, which would be key to allow businesses to make capex plans.

Nevertheless, questions remain over deals involving transshipment of goods, as the Trump administration it is not clear how easy it will be to make a clear distinction between trade re-routing to evade tariffs, which is already illegal, and trade reallocation. On the growth front, our base case is still for a slowdown in the US (which is revised higher versus the start of the year), rather than a recession. Given that trade uncertainty is still elevated despite retreating, and not to forget ongoing geopolitical tensions, volatility may resume anytime. After all, the VIX index did come off a high of 60 back during "Liberation Week" to the current level of 16.

FIGURE 2.
DECLINING TRADE UNCERTAINTY INDEX



Source: Macrobond, BNP Paribas WM, as of 23 July 2025. Past performance is not indicative of current or future performance.



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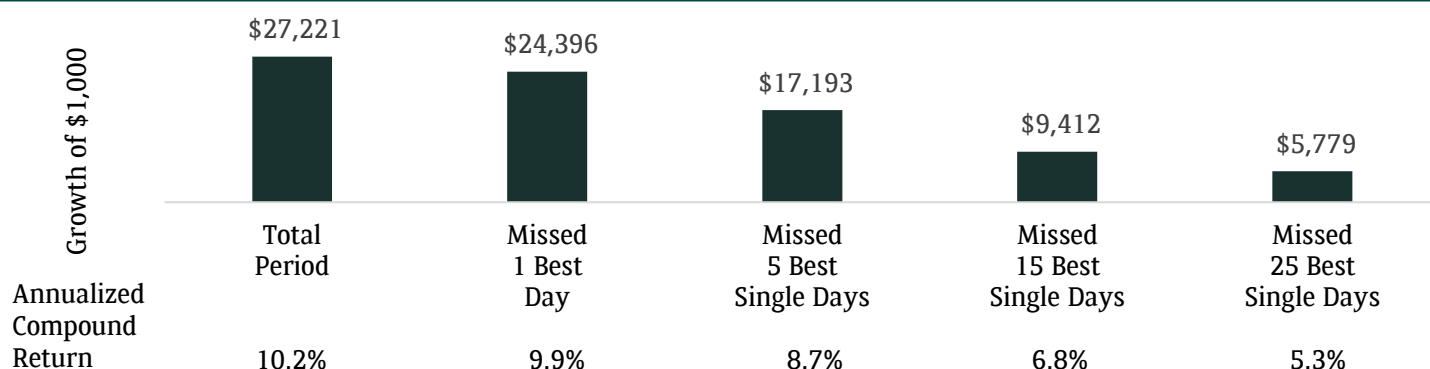
? How should investors position to hedge against volatility?

Diversification to bulletproof your portfolio

Volatile periods can be particularly challenging for investors. The Trump uncertain factor is unlikely to go away even after the conclusion of this reciprocal tariffs episode. Therefore, it is important to remain disciplined in such market conditions. Strategic asset allocation should be at the core of every investor. Our theme "Diversification is the only free lunch", has paid off year-to-date as overweight Non-US equities, gold, alternatives and dollar diversification have boosted risk-adjusted returns.

This strategy is likely to ensure long term stability through exposure to a range of asset classes inclusive of alternatives, commodities and non-cyclical strategies. Tactical asset allocation to achieve alpha will also be crucial in ensuring that the portfolio is adjusted based on the latest change in market views. Importantly, time in the market beats timing the market. Studies done have shown that by just missing 1-5 best days even during an extended time period of 20+ years, investors lose up to 2% of annual compounded returns. Hence, staying invested will be key.

FIGURE 3.
PERFORMANCE OF S&P 500 INDEX (1990 TO 2023)



Source: Bloomberg, BNP Paribas WM, as of 23 July 2025.
Past performance is not indicative of current or future performance.

Overview of our CIO Asset Allocation for July/August 2025

	Views		Constituents	We like	Comments
	Current	Prior			
EQUITIES	=	=	Markets	Europe, UK, Japan, Brazil, Mexico, China, South Korea, Singapore & Indonesia	<ul style="list-style-type: none"> Remain Neutral on Global Equities. We upgrade Europe to positive.
			Sectors	Positive Healthcare and Utilities. For Europe: Financials, Industrials, Materials	<ul style="list-style-type: none"> For Europe, we remain cautious of exporters, prefer sectors that should benefit from infrastructure plans and other economic stimulus measures. Banks are still cheap.
			Styles/Themes	Megatrend Themes	<ul style="list-style-type: none"> Circular economy, electrification, security & income themes.
BONDS	=	=	Govies	Eurozone, UK, US	<ul style="list-style-type: none"> We stay Positive on US, UK and German government bonds and US TIPS. Our 12-month US 10Y yield target remains unchanged at 4.25%.
			Segments	EUR and GBP Investment grade	<ul style="list-style-type: none"> We continue to like EUR and GBP investment grade corporate bonds. We remain neutral on High Yield and EM bonds (USD+local currency).
CASH	-	-			
COMMODITIES	=	+		Gold	<ul style="list-style-type: none"> Gold – Neutral as we expect short-term consolidation and target at \$3300/oz. Look to buy on weakness. Oil – Still Negative. Brent target range is \$60-70. Base metals – Neutral as we expect a possible economic slowdown due to the trade war.
			USDJPY		<ul style="list-style-type: none"> 12-month target at 140
FOREX			EURUSD		<ul style="list-style-type: none"> 12-month target at 1.20
			CNHUSD		<ul style="list-style-type: none"> 12-month target at 7.20
ALTER-NATIVE	+	+		Hedge funds (long-short equities, relative value)	<ul style="list-style-type: none"> Neutral on global macro and event driven strategies

Note: + Positive / = Neutral / - Negative

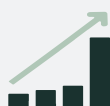


GDP & CPI Forecasts

		GDP (YoY%)			CPI (YoY%)		
		2024	2025f	2026f	2024	2025f	2026f
Developed	US	2.8	1.7	1.5	2.9	2.9	3.2
	Japan	0.1	0.7	0.4	2.7	3.3	2.1
	Eurozone	0.8	1.2	1.3	2.4	2.1	1.9
	UK	1.1	1.2	1.0	2.5	3.3	2.6
North Asia	China	5.0	4.8	4.5	0.2	0.0	1.0
	Hong Kong*	2.5	1.5	1.9	1.7	1.9	2.2
	South Korea	2.0	1.0	1.7	2.3	2.2	2.1
	Taiwan	4.6	4.5	2.5	2.2	1.8	1.6
South Asia	India	8.2	6.5	6.3	5.4	4.6	4.1
	Indonesia	5.0	4.8	5.0	2.3	1.8	2.0
	Malaysia	5.1	3.6	4.4	1.8	1.5	2.1
	Philippines*	5.7	5.5	5.8	3.2	2.6	2.9
	Singapore	4.4	2.2	1.5	2.8	0.8	1.6
	Thailand	2.5	2.0	2.4	0.4	0.8	1.6

Source: BNP Paribas Group Economic Research, BNP Paribas Global Markets forecasts as of 18 July 2025

* IMF data and forecasts as of 18 July 2025



GROWTH

- Passage of the One Big Beautiful Bill Act (OBBBA) does not reshape our expected trajectory for the US economy – still caught between the drag from tariffs and only a moderate new impulse from tax and spending changes. However, it adds to our confidence that the economy will avoid a recession.
- We estimate that Eurozone potential GDP growth will average 1.4% y/y in 2025–27, thanks to pledged investments in defence and infrastructure, without which it would have likely declined compared with the pre-pandemic period.



INFLATION

- The US June CPI report showed unambiguous evidence of tariff pass-through to goods prices, in our view, though the overall print was limited by yet more weakness in discretionary services categories and vehicle prices. We expect a pickup in m/m core inflation readings starting with the July CPI report.
- For Eurozone, we continue to expect a cut to 1.75% in September, justified by a projected prolonged period of below-target inflation and elevated growth risks from high tariffs – even in the event of an EU–US deal.



Equities

POSITIVE NEUTRAL NEGATIVE

OVERALL GLOBAL: NEUTRAL

COUNTRY		
▲ Eurozone UK, Japan Emerging Mkt		US
SECTOR		
Healthcare Utilities	Comms. Real Estate Financials Materials Industrials	Consumer Staples Energy Technology Consum. Discre.

OVERALL ASIA: POSITIVE

COUNTRY		
China Singapore South Korea Indonesia	Taiwan India, Thailand Malaysia Philippines	-
SECTOR		
Comms. Consu. Discre. Consumer Staples Technology	Materials Real Estate Financials Healthcare Utilities	Industrials Energy

- We **upgrade European equities to positive**, as uncertainties fade and upside risks to growth emerge. We favour domestic exposure among large caps, and remain careful with EU exporters in the context of stronger EUR.
- We remain neutral on global equities because (1) high US valuations, (2) risks of a more severe US economic slowdown, (3) the residual risk of trade talks failing. We prefer to maintain a degree of caution, as a resurgence in volatility may present investors with more attractive opportunities to increase their overall equity allocation.

- We continue to be positive on China. Sentiment has been boosted recently by hopes for an end to price wars and overcapacity given Beijing's "anti-involution" push.
- We also believe downside risk is limited given the government's "policy put" to support the economy and stock markets. Valuations for Chinese equities, especially China tech with upward earnings revisions, remain attractive. China banks and telecoms continue to offer attractive dividends.

	1M % (30 Jun - 18 Jul)	YTD %	2024 %	Dividend Yield	PE Forward 1Y	PB	ROE	EPS Growth Rate Past 12M	EPS Growth Rate Forward 1Y
Developed									
United States	1.7	7.9	23.9	1.2	24.8	4.7	28.9	25.3	11.8
Japan	-2.6	9.8	6.3	2.5	16.7	1.5	12.2	9.3	9.8
Euro Area	1.5	25.5	-0.3	3.0	15.4	2.1	17.2	21.1	20.9
United Kingdom	1.4	21.9	7.5	3.4	13.3	1.9	21.7	6.1	10.0
North Asia									
China	4.3	6.7	7.0	2.0	16.6	2.0	14.8	13.4	28.8
Hong Kong	4.4	27.2	24.2	3.5	10.5	1.2	13.5	30.4	13.7
South Korea	2.0	42.3	-21.7	1.7	11.4	1.3	13.1	40.7	42.8
Taiwan	5.1	16.1	24.0	2.9	16.6	2.8	24.5	33.1	34.7
South Asia									
India	-1.8	3.2	12.7	1.0	22.8	3.8	19.8	12.2	17.1
Indonesia	5.2	3.3	-0.4	3.0	16.9	2.9	14.7	30.6	3.0
Malaysia	-0.3	0.9	21.5	3.6	14.8	1.5	11.9	16.9	14.7
Philippines	-2.0	3.6	9.0	3.0	11.0	1.4	19.0	9.7	9.8
Singapore	5.9	22.5	14.8	4.8	12.9	1.2	12.3	58.2	8.5
Thailand	11.5	-4.8	5.2	4.2	12.8	1.2	14.3	4.0	10.5
LatAm									
Mexico	-2.3	23.8	-25.8	2.7	11.0	1.8	19.3	1.1	13.4
Brazil	-43.4	-26.1	-28.5	0.5	19.9	3.8	17.8	0.1	16.0

Source: Macrobond Indices in USD terms, BNP Paribas (WM), as of 18 July 2025



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Fixed Income

😊 POSITIVE 😐 NEUTRAL 😞 NEGATIVE

OVERALL GLOBAL: NEUTRAL



US Treasuries
German Bunds
UK Gilts
EUR and GBP IG

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

-

OVERALL ASIA (USD): NEUTRAL



Japan
Singapore

South Korea
Philippines
Indonesia
Hong Kong
India, China
Australia

		Total Return (%)			Yield-to-Worst (%)
		MTD (30 Jun - 18 Jul)	YTD	2024	
Asia	Asia USD Bond	0.2	2.8	4.5	5.2
	Asia Local Currency Bond	2.0	7.9	1.0	3.7
	China	0.1	3.1	5.7	5.2
	Hong Kong	0.0	2.9	4.7	5.0
	India	1.0	3.2	7.4	6.0
	Indonesia	0.5	2.5	0.8	5.4
	Singapore	-0.3	2.4	3.0	4.6
	South Korea	-0.1	2.8	4.4	4.7
	Philippines	0.2	3.2	1.4	5.3
Other Regions	US 10-year Treasuries	-1.0	3.6	0.1	4.4
	US Investment Grades (IG)	-0.7	2.4	1.3	4.7
	US High Yield (HY)	1.7	2.7	8.2	7.5
	Emerging Market USD Bond	0.3	2.8	5.2	5.6

Source: Barclays indices, Bloomberg, BNP Paribas (WM) as of 18 July 2025

US Treasury 12-month Yield Targets (%)	2Y	5Y	10Y	30Y
	3.60	3.75	4.25	4.5

- **Rate forecasts:** We maintain our view that the ECB will cut rates one last time in this cycle (in September), leading to a terminal rate of 1.75%, and will hike rates in late 2026. In the US, we still expect two rate cuts this year and two in 2026, with a terminal rate of 3.5%.
- **Govies:** We keep our US 10-year yield target at 4.25% in 12 months, but we fear short term volatility given high refinancing risks before year-end. German long-term rates should be less volatile in the short term and rise in 2026 (target 2.75% by mid-2026). We stay Positive on US, UK and German government bonds and US TIPS.
- **Corporate IG:** We prefer EUR IG (Positive view) over USD IG (Neutral view) given its better credit metrics, lower volatility, and global move for diversification away from USD assets. We prefer maturities up to 7 years in the Eurozone and up to 5 years in the US.
- **Corporate HY:** Despite global risks, HY spreads have tightened. Defaults remain low and fundamentals are resilient. However, we prefer to maintain a neutral stance as the asset class is overvalued and does not reflect the upcoming US slowdown.



Forex & Commodities

😊 POSITIVE 😐 NEUTRAL 😞 NEGATIVE

12-MONTH FOREX VIEW



JPY
EUR

USD GBP AUD
NZD CNY KRW
IDR MYR PHP
SGP THB

CAD
INR

COMMODITIES



Base Metal
Gold

Oil

- **EUR:** We continue to believe that capital is already being reallocated away from US assets — a trend that would not be reversed by a reduction in tariffs. Ongoing fiscal pressure reinforces our negative outlook on the USD. Therefore, we keep our 3-month target to 1.15 and our 12-month target to 1.20 (the value of one EUR).
- **AUD:** The RBA cut its policy rate by 25bp to 3.85% in May. We maintain our view that external factors, such as global risk appetite, US-China trade relations and Chinese growth will influence the AUD more than domestic fundamentals. We maintain our 3-month target at 0.66 and we have changed our 12-month target to 0.66 (the value of one USD).
- **GOLD: Neutral** - After the sharp rally, we became neutral in early May as we expected some consolidation due to a possible de-escalation of the trade war and military conflicts. Gold could continue to fulfil its safe-haven role if trade and/or military tensions were to escalate again, or if investors were to become more concerned about US deficits and debts. Our target is USD 3300/ounce.
- **OIL: Negative** - We expect Brent's target range at USD 60-70 given Trump's policy of favouring lower oil prices, limited demand growth, combined with substantial non-OPEC supply growth and OPEC+ production hikes.
- **BASE METALS: Neutral** - In the short-term, we see reduced demand due to possible economic slowdown amid trade war. In the longer term, we still expect the growing demand for energy transition and infrastructure to outpace the expected growth in supply.

Forex Forecasts

		Spot	View	3-month	View	12-month
		As of 18 Jul 2025		Target		Target
Developed	USD Index*	98.48	=	98.8	-	95.3
	Japan	148.5	=	145	+	145
	Eurozone	1.165	=	1.15	+	1.20
	UK	1.344	=	1.35	=	1.38
	Australia	0.652	=	0.66	=	0.66
	New Zealand	0.596	=	0.60	=	0.60
	Canada	1.372	-	1.40	-	1.40
Asia Ex-Japan	China	7.177	=	7.20	=	7.20
	South Korea*	1,393	=	1,360	+	1,330
	India	86.16	=	86.0	-	88.0
	Indonesia*	16,290	=	16,200	=	16,000
	Malaysia*	4.243	=	4.23	=	4.17
	Philippines*	57.19	=	56.3	=	55.6
	Singapore*	1.284	=	1.27	=	1.25
	Thailand*	32.38	=	32.5	=	31.8

Source: BNP Paribas (WM) as of 18 July 2025

*BNP Paribas Global Markets forecast as of 18 July 2025

Note: + Positive / = Neutral / - Negative



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