

# Investment Strategy Focus

## 2026 Outlook

### Summary

- 1. Government stimulus to support growth:** the US should focus on tax cuts and deregulation efforts ahead of the November 2026 mid-term elections. Europe will spend on infrastructure and defence, while China and Japan will also add targeted measures to support domestic consumption and the property market.
- 2. Moderating inflation to allow lower US rates:** steady US inflation and low/falling inflation in Europe and Asia should allow for lower interest rates in the US and emerging markets. Long-term yields should remain around current levels, with IG credit potentially benefiting from tighter credit spreads. **Favour Euro IG credit including financials, EM sovereign bonds in local currency.**
- 3. Ongoing bull market in stocks.** Ample liquidity, lower rates, earnings growth, deregulation and buoyant buybacks support global stock markets. **Prefer World ex-US (Japan, emerging markets), health care, Euro banks and mining sectors.**
- 4. Precious and strategic metals:** long-term positive on precious metals given expected weaker US dollar, lower rates and persistent geopolitical volatility. Copper to benefit from strong global AI/electrification demand with supply limited. **Favour exposure to physical copper, global mining stocks.**
- 5. Six investment themes for 2026:** i) Ride the bull but guard the gains; ii) Escape shrinking cash returns; iii) Beyond algorithms, the new AI frontiers; iv) Welcome to the new age of scarcity; v) Investing when policy rules markets; vi) Opportunity Rising: the allure of Asia.

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### AVERAGE COMMODITY PRICE RETURNS TO HIGHEST SINCE 2011



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## What will really matter in 2026?

<b>Government stimulus</b>	<ul style="list-style-type: none"> <li>- The US should focus on tax cuts and deregulation efforts rather than tariffs ahead of November 2026 mid-term elections.</li> <li>- Europe will spend on infrastructure and defence, while China and Japan will also add targeted measures to support domestic consumption and the property market. Positive for global growth.</li> </ul>
<b>Fed policy direction</b>	<ul style="list-style-type: none"> <li>- A December rate cut is not the real question. Will the Fed really deliver at least 2 further rate cuts in 2026 to take the Fed Funds rate to 3.25% or lower? US dollar direction will depend largely on this question.</li> <li>- Soft employment and political pressure suggest lower rates, but stubborn inflation, robust growth do not.</li> </ul>
<b>Global liquidity</b>	<ul style="list-style-type: none"> <li>- Fed has ended its balance sheet reduction (quantitative tapering) programme, helping liquidity. The Chinese PBOC remains in expansion mode to support the Chinese economy. Lower US and EM benchmark rates will also boost macro liquidity.</li> <li>- Will European and Chinese households release liquidity for productive purposes by reducing their oversized cash deposits? Will the US make home equity loans and portable mortgages easier to access, releasing trapped equity and boosting property market activity?</li> </ul>
<b>Ukraine and energy prices</b>	<ul style="list-style-type: none"> <li>- The geopolitical risk premium priced into crude oil and natural gas remains a key driver of global energy prices. A ceasefire in the Ukraine-Russia conflict should trigger a reduction in this energy risk premium, a potential positive for Europe via lower gas prices and could mark the low for oil prices in this cycle, potentially in Q1 2026.</li> </ul>
<b>Will private credit stress ease?</b>	<ul style="list-style-type: none"> <li>- Signs of private credit problems continue to appear in US private credit, even though US business development corporation stocks and listed private credit funds rebound in the short term.</li> <li>- Expect further private loan defaults in 2026 as consumption slows</li> <li>- Watch US CCC-BB high yield credit spreads for signs of transmission of stress to listed markets and financial conditions.</li> </ul>
<b>Will US exceptionalism survive?</b>	<ul style="list-style-type: none"> <li>- Will the 2025 underperformance of US large-cap stocks and the US dollar versus the World ex-US continue into 2026? What will be the impact of the shift of hyperscaler business models from capital-light to capital-intensive? We see further unwinding of the US exceptionalism narrative in 2026, with World ex-US stocks outperforming the US, and the euro and EM currencies strengthening versus the USD.</li> </ul>



## 2026 Top Convictions

<b>Global Mining (stocks)</b>	<ul style="list-style-type: none"> <li>Commodity bull market for precious and strategic industrial metals underpins global demand for global mining sector.</li> <li>Strong capital discipline with little investment in new mining capacity, shareholder returns focus and sector consolidation via M&amp;A activity.</li> <li>Valuations remain modest (1.6x price/book value) and attractive dividend yield on offer (4.5% for European Basic Resources).</li> </ul>
<b>Pharmaceuticals (stocks)</b>	<ul style="list-style-type: none"> <li>To benefit from early adoption of AI to boost innovation, productivity.</li> <li>Beneficiary from ageing populations in the developed world.</li> <li>Burgeoning pipeline of new drugs for Alzheimer's, obesity, cancer coming to market soon.</li> <li>Only a modest impact on profit margins from Trump's attempts to reduce US drug pricing, with offsets from potentially higher sales.</li> <li>Attractive valuation versus history for this defensive growth sector.</li> </ul>
<b>Emerging Market sovereign bonds in local currency (fixed income)</b>	<ul style="list-style-type: none"> <li>High bond yield of 6%+ on offer from EM bond funds in local currency, at a time when economic and political fundamentals are improving.</li> <li>EM central banks expected to reduce benchmark rates in line with the Fed, supporting potentially lower bond yields.</li> <li>FX support from stronger EM currencies versus US dollar as high real rates attract capital to high-yielding EM currencies.</li> </ul>
<b>Copper (commodities)</b> +	<ul style="list-style-type: none"> <li>Underlying copper price (LME) breaking out to new all-time high c. USD 11,000/tonne on strong underlying demand from tech, AI/data centres, electrification; higher copper prices forecast for 2026</li> <li>Restricted growth in global supply (long lead times for new mines) promises higher profit margins for global copper producers.</li> <li>Further growth in copper demand from data centre installations and upgrades to electricity infrastructure in view.</li> <li>Copper miner index hits a new all-time high above the 2011 high.</li> </ul>
<b>Clean energy infrastructure (infrastructure, stocks)</b>	<ul style="list-style-type: none"> <li>Growing electricity demand from datacentres, air conditioning and electrification of the economy is driving the need for greater investment in electricity generation and transmission capacity.</li> <li>Falling costs of solar panels and industrial battery storage and relatively quick installation versus other forms of generation lower levelised cost of energy and boost demand.</li> </ul>
<b>Merger arbitrage strategy Alternative UCITS/Hedge Funds (alternatives)</b>	<ul style="list-style-type: none"> <li>Despite initially erratic Trump policies, the value of announced US M&amp;A has increased 29% y/y, and the number of announced M&amp;A transactions by 8% y/y. European corporate activity has also improved.</li> <li>Under Trump's "deal-friendlier" appointed regulators, few M&amp;A deals are now being challenged.</li> <li>An 18% increase in the number of IPOs vs. the same period in 2024 (strongest since 2021), although still well below the historical average volume of issuance. The average IPO this year has returned 30% on its first day of trading.</li> </ul>



## Will 2026 be another profitable year for investors?

### An impressive recovery from April sell-off

The sharp April sell-off that occurred in the wake of President Trump's surprising "Liberation Day" reciprocal tariff announcement is today thankfully a distant memory. It is worth recalling that global stocks had sunk 12% from the beginning of the year to 8 April. By 21 May, long-term US Treasury bonds had also sunk to a -3% return from the start of the year as yields rose 0.7% from the April low on resurgent tariff-related inflation fears. Financial markets have successfully navigated a variety of potentially tricky geopolitical situations and volatility spikes in March, April, October and November without having any lasting damage to investors' portfolios.

### All major asset classes delivered positive returns

2025 has been an unusual year in asset class terms, with all major asset classes from stocks to bonds and from commodities to real estate all registering positive annual returns. Put another way, no matter what assets you invested in, it has been difficult to lose money.

The backdrop to this broad-based strength has been a combination of ample liquidity, low and falling benchmark interest rates on the back of easing inflation, modest positive economic growth and robust corporate earnings trends. Financial market volatility has declined sharply from May peaks, reaching multi-year lows in the case of US bond and global FX volatility.

### Key trends to watch in 2026

We believe that there are a select few trends that investors should keep front of mind in the new year:

- **Lower interest rates:** benchmark interest rates are far lower in December than in January thanks to synchronised rate-cutting cycles in the US, eurozone, UK, Switzerland and China. Japan is one of the only countries to have raised interest rates, but only to 0.5% to date. Will the Federal Reserve guide to further Fed Funds rate cuts in 2026?
- **Government stimulus:** Germany is leading the way in projecting increased infrastructure and defence spending in Europe, while the focus of the Trump administration in the US is shifting away from tariffs towards tax cuts and deregulation in advance of November 2026's mid-term elections.
- **Easing energy prices in Europe, but higher in the US:** Europe continues to suffer from electricity and gas prices that are multiples higher than in the US or China. A continued easing in these European energy prices will be key to encouraging improved growth in 2026. In contrast, Stateside, the AI data centre investment boom is pushing electricity and gas prices to multi-year highs.
- **Will the AI investment boom cool?** US growth is being disproportionately fuelled by AI-related investment, while traditional growth motors, such as domestic consumption, are patchier. Wider credit spreads for certain hyperscalers, such as Meta and Oracle, may dampen further growth in this AI-related capex in 2026.

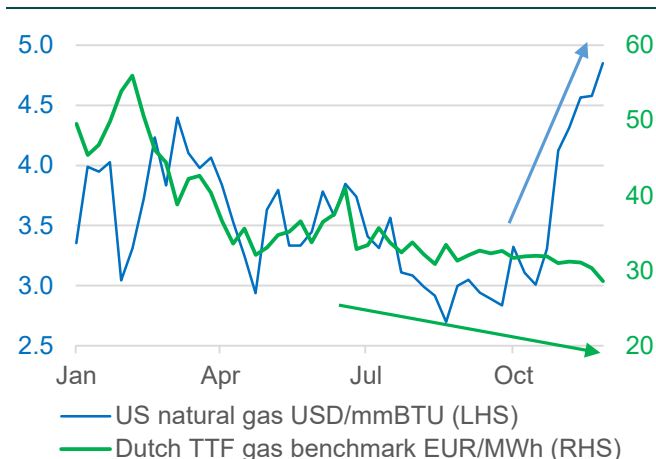
#### POSITIVE RETURNS ACROSS ASSET CLASSES IN 2025

2025 Return %	Euro	USD
<b>Stocks</b>	6.7%	20.1%
<b>Sov. Bonds</b>	1.2%	7.9%
<b>IG Credit</b>	3.2%	8.0%
<b>Commodities</b>	8.7%	23.1%
<b>REITS</b>	8.7%	4.7%
<b>Cash</b>	1.8%	4.0%

Source: BNP Paribas, Bloomberg. As of 29 November 2025.

Note: Stocks = MSCI World index; Sov. bonds = Bloomberg Euro/US Sovereign bond indices; IG credit = Bloomberg EU/US investment-grade credit index; Commodities = Bloomberg equal-weight commodities ex-agriculture; REITs = Euro STOXX REIT/Dow Jones REIT index.

#### US GAS PRICES HIGHEST SINCE 2022 WHILE EU GAS PRICES CONTINUE TO EASE



Source: Bloomberg



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## Economic Outlook and Interest Rates

### A modest Goldilocks economy in 2026: not too hot, not too cold

Growth is robust but moderating in the US, disproportionately driven by the AI capex wave while consumption is cooling off on the back of a weaker labour market. Government support for growth in the form of tax cuts and deregulation should come to the fore in 2026 in the place of tariffs. Lower interest rates should also help; housing activity could rebound thanks to a decline in 30-year fixed mortgage rates from 7.3% in January to 6.3% today.

### European growth could surprise

European growth could surprise to the upside in 2026 on the back of i) government spending on infrastructure and defence; ii) greater corporate investment spending on technology; iii) stronger domestic consumption as energy costs and inflation decline further and as house prices rise, and iv) the lagged impact of lower interest rates filtering through to the broader economy. Higher bank loan demand points to stronger eurozone growth momentum.

### Solid growth outlook in Asia

In Asia, both China and Japan have flagged further targeted fiscal stimulus measures to support the property market and boost domestic consumption. Japanese employment continues to grow steadily, resulting in a steady improvement in personal disposable income. Despite higher US tariffs, the value of Chinese and Japanese global exports in dollar terms continue to grow at an average 5% and 3.4% annual pace respectively, with exports to the rest of Asia and to Europe more than compensating for US weakness.

### Stubborn US inflation, low and falling elsewhere

US inflation rates should hover close to 3% next year on the back of continued tariff pressures, higher energy prices and sticky services prices. This should not prevent the Fed from lowering rates in 2026 towards 3.25% given the persistent political pressure, amplified by a change in Fed chair in May.

Elsewhere in the world, inflation trends remain benign with further falls in eurozone CPI likely on the back of lower energy costs, cheaper Chinese goods imports and a modestly stronger euro. China is mired in mild deflation as domestic consumption struggles to rebound, while Japanese core inflation runs at a modest 1.6% year-on-year. The price of rice (+40% y/y) is the only painful aspect of inflation for Japanese households.

### Short-term yields anchored, yield curves modest

Short-term bond yields remain anchored by low and falling benchmark rates giving the little scope for manoeuvre. The US 2-year bond yield may be vulnerable (in the short term) to any more cautious comments from the Fed over the prospect for 2026 Fed rate cuts, as the interest rate futures market already prices a 3% Fed Funds rate by end-2026. Long-term bond yields should be relatively well anchored by long-term inflation expectations at or even under 2%. We maintain our 12-month forecast of 4.25% for the US 10-year Treasury yield, and 2.75% for the 10-year German bund yield. Both are relatively close to current levels, implying that 12-month bond returns should be close to the current yields of 4.0% and 2.7% respectively. **Neutral on sovereign bonds.**

#### BNP Paribas Forecasts

GDP Growth %	2024	2025	2025- Bloomberg Consensus	2026	2026-Bloomberg Consensus
United States	2.8	1.9	1.9	1.9	1.9
Japan	0.1	1.3	1.3	0.6	0.7
United Kingdom	1.1	1.3	1.4	1.0	1.1
Switzerland	1.0	1.5	1.2	1.0	1.2
<b>Eurozone</b>	<b>0.9</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>	<b>1.1</b>
Germany	-0.5	0.3	0.3	1.4	1.0
France	1.1	0.8	0.8	1.2	0.9
Italy	0.5	0.7	0.5	1.1	0.7
<b>Emerging</b>					
China	5.0	5.0	4.9	4.5	4.4
India**	6.5	6.2	6.4	6.4	6.7
Brazil	3.4	2.3	2.2	1.6	1.7

\*\* Fiscal year

Source : BNP Paribas, Bloomberg - 24/11/2025

#### BNP Paribas Forecasts

CPI Inflation %	2024	2025	2025- Bloomberg Consensus	2026	2026- Bloomberg Consensus
United States	2.9	2.8	2.8	3.1	2.9
Japan	2.7	3.2	3.1	2.1	1.8
United Kingdom	2.5	3.4	3.4	2.7	2.5
Switzerland	1.1	0.2	0.2	0.8	0.6
<b>Eurozone</b>	<b>2.4</b>	<b>2.1</b>	<b>2.1</b>	<b>1.8</b>	<b>1.8</b>
Germany	2.5	2.2	2.2	1.3	2.0
France	2.3	1.0	1.0	1.2	1.4
Italy	1.1	1.7	1.7	1.5	1.5
<b>Emerging</b>					
China	0.2	0.0	0.0	1.0	0.8
India*	4.7	3.2	4.6	4.4	2.5
Brazil	4.4	5.0	5.0	3.8	4.2

\* Fiscal year

Source : BNP Paribas, Bloomberg - 24/11/2025



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## Corporate Credit and Real Estate: tighter spreads are possible

### Positive on EU & UK credit, more cautious in the US

Underlying sovereign bond yields and investment grade (IG) credit spreads have moved quite differently in the US and Europe over the past year.

On the one hand, US IG corporate bonds have benefited from the fall in US 5-year Treasury yields from 4.6% at worst in mid-January to just 3.6% at present. Partially countering this, has been a modest widening of the average US IG (BBB) credit spread from a September low of 0.9% to just over 1% now. Overall, US IG credit has returned 8% in US dollar terms in 2025, above its average historical return of 6.3%.

The key question surrounding US corporate credit is the impact of huge debt issuance by US hyperscalers, such as Meta and Oracle, to fund the buildout of datacentres to power AI model development. For example, BBB-rated Oracle 2035 credit is offering nearly a 1.5% yield premium over an equivalent 10-year US Treasury bond. This relatively wide credit spread underlines the nervousness of credit investors over the deterioration in free cash flows and growth in outstanding debt of these technology sector issuers.

In contrast, eurozone IG credit has not seen any benefit from underlying average Euro area 5-year sovereign bond yields, which have remained relatively stable throughout 2025 at around 2.5%. Unlike in the US, eurozone IG (BBB) credit spreads have enjoyed a 0.2% compression from 1.15% in January to 0.94% now. At 3.5% since the beginning of 2025, Euro area IG credit returns have been more modest than in the US. Looking to 2026, we see greater potential for spread compression in Euro and UK IG credit than in the US over the next 12 months. **We are Neutral on USD IG and prefer EUR and UK IG (Positive view).**

### Real Estate: a slow European recovery

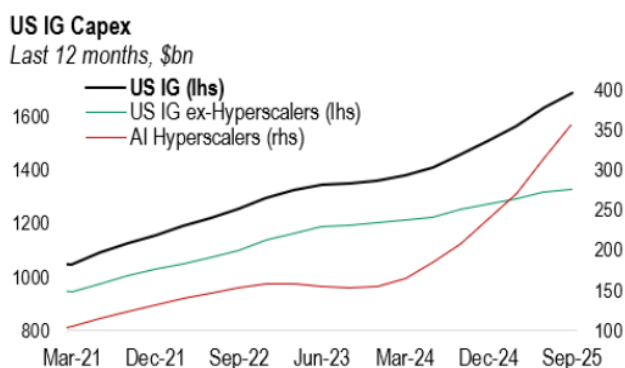
The European macro backdrop of low short-term rates, steady long-term interest rates and modest economic growth underpins the outlook for European residential and commercial real estate. Employment trends remain robust, while mortgage demand is picking up (+2.6% y/y as of October).

European commercial real estate capital values have seen a gain of 1.3% y/y according to the INREV fund index for Q3 2025, while rental yields have averaged 3.1% over the past year. A 4.4% annual total return is respectable for this asset class and beats European corporate credit returns of 3.3% for the same period, but has lagged behind the historic annual average return of 5.2% for European real estate funds since 2000.

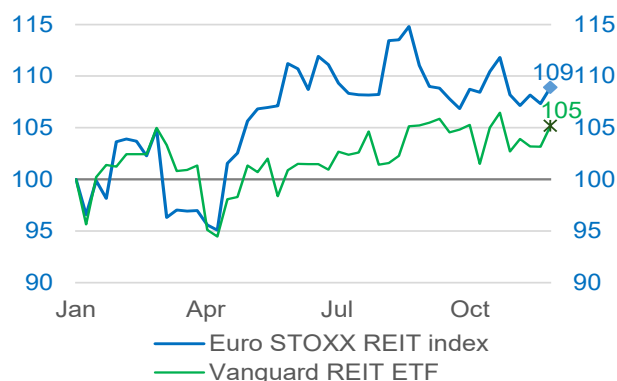
Average European rental yields of 4.2% for high street retail, 4.6% for prime offices and 5.0% for logistics were offered in major European cities in Q3 2025 (according to BNP Paribas Real Estate). Rental growth in the European office and logistics sectors is averaging 4.0-4.4% on a yearly basis, underlining the potential for capital growth following the reset in net asset values over 2022-24. Residential remains a defensive segment given robust rental demand in a capacity-constrained sector, supported by average rental growth of 4.4% y/y and house prices that rose on average 4.6% in Q2 2025 versus a year earlier.

Overall, investors who can accept the illiquid nature of the unquoted European real estate asset class can hope to benefit from estimated annual total returns averaging 7%+ (4%+ yield, 3%+ capital value growth) over the next 5 years. We favour exposure to residential, logistics, and health care segments.

### TECH IS DOMINATING THE EXPANSION IN US IG CAPEX AND CREDIT ISSUANCE



### EUROPEAN LISTED REAL ESTATE OUTPERFORMS US REITS IN 2025



## Equities: the great build-out

### Finding value in a capex-driven world

Stephan Kemper

#### A constructive backdrop for equities

The 2026 outlook for global equities remains constructive, though selectivity will be essential. Financial conditions are expected to stay supportive, underpinning risk assets, while global growth should remain resilient. At the same time, structural trends—particularly the acceleration of investment in artificial intelligence (AI) and related technologies—are shaping the opportunity set for equity investors.

#### US equities at the mercy of earnings growth

Elevated valuations are limiting the scope for broad-based upside. Sectors linked to the AI investment cycle, including technology infrastructure, semiconductors, and cloud services, continue to offer compelling prospects. For non-US dollar investors, currency hedging may help mitigate volatility. While the US remains a core allocation, investors should focus on companies with strong balance sheets and exposure to transformative technologies. **We stay Neutral.**

#### Europe still battles a stronger euro

After a challenging 2025, earnings momentum is expected to recover. A stronger euro should remain a headwind for certain areas of the market, putting earnings growth expectations at risk, especially for companies with large US dollar exposure. Domestic sectors benefiting from infrastructure programmes and strategic autonomy initiatives should fare better. Energy transition and digitalisation remain key themes, creating opportunities in industrials and renewables. **Neutral relative to a global benchmark.**

#### Emerging markets take the lead

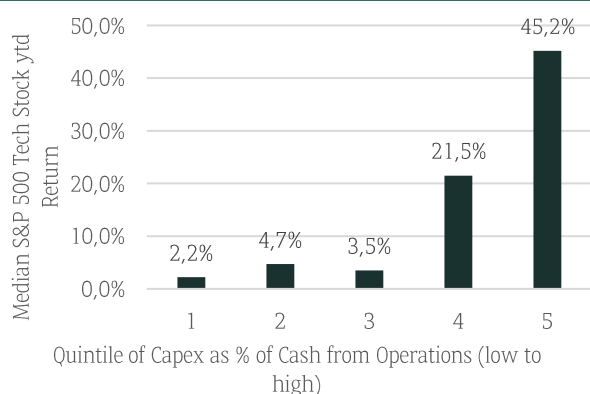
We see the greatest opportunities in emerging markets. Lower interest rates, a weaker US dollar, and ongoing technological progress are key drivers for 2026. Asia remains central to this story, with China playing a pivotal role. The country's renewed focus on innovation and its leadership in areas, such as artificial intelligence and advanced manufacturing, are expected to support growth. Chinese technology companies often offer stronger growth at discounted levels compared with their US peers. These factors make emerging markets an important component for equity allocation in the year ahead. **We remain Overweight.**

#### Still big in Japan

Political stability and pro-growth reforms continue to enhance Japan's appeal. Corporate governance improvements remain a key driver, supporting shareholder returns and transparency. Japan's leadership in advanced technologies—particularly artificial intelligence, semiconductors, and robotics—positions the market as a strategic component in global portfolios. In addition, the country's deepening economic and technological ties with the United States are reinforcing its role in global supply chains and innovation ecosystems. Combined with structural reforms and innovation-driven growth, these factors make Japan an increasingly compelling destination for long-term investors. **We remain Overweight.**

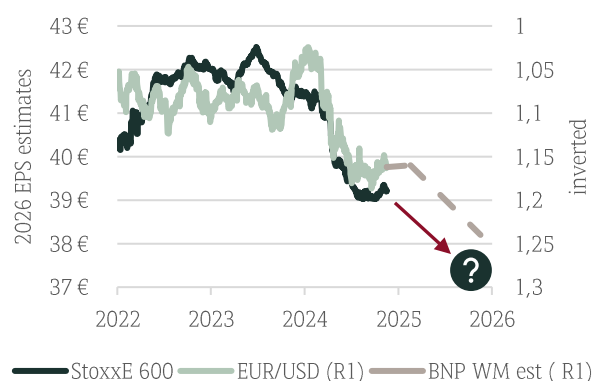
*This is a summary based on our 2026 Equity Outlook "The Great Build-Out", which can be found [here](#).*

#### THE MARKET IS REWARDING TECH STOCKS WITH HIGH CAPEX SPENDING



Source: BNP Paribas, Bloomberg.

#### A STRONGER EURO COULD REMAIN A HEADWIND FOR EU EARNINGS



Source: BNP Paribas, Bloomberg.



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## Currencies and Commodities: more USD weakness

### FX: expect the USD to resume its downtrend

The key factor driving the direction of major US dollar pairs remains the weakness of the US labour market and its consequent impact on Federal Reserve policy. Since 2021, the DXY US dollar index has shown a strong directional correlation with the US unemployment rate. A modest rise in this rate to 4.4% over the coming year, in line with weak ADP private employment index prints, would suggest more Fed rate cuts. In turn, this would point to further modest US dollar weakness, with the DXY dollar index expected to fall from 99.5 as of end-November to 93.3 in 12 months time.

Aside from the fundamental narrowing of growth and interest rate differentials between the US and other G7 members, we should also consider the political dimension. If Trump is truly to spur the reshoring of manufacturing to the US, the currency is a second driver to use following the implementation of sharply higher tariffs on global imports. Finally, consider the ongoing trend of de-dollarisation by countries around the world. The US dollar share of global central bank FX reserves has fallen from 60% in 2015 to just over 40% today, with a sharp acceleration in this trend over the last 3 years (since 2022). It seems unlikely that this trend has run its course. From a long-term perspective, the US dollar is still relatively expensive versus a global basket of currencies according to the Fed trade-weighted broad dollar index. After a steady climb in this USD index totalling 50% from 2011 to January 2025, we have seen a subsequent 6% weakening. Returning to the 2011-2025 average would imply a further 9% USD depreciation.

### USD EXPECTED TO WEAKEN VS THE EURO, COMMODITY CURRENCIES

	Country	Spot 30/11/2025	Target 3 months	Target 12 months
Against euro	United States	EUR / USD 1.16	1.16	1.24
	United Kingdom	EUR / GBP 0.88	0.87	0.87
	Switzerland	EUR / CHF 0.93	0.94	0.94
	Japan	EUR / JPY 181	176	184
	Sweden	EUR / SEK 10.95	11.00	10.70
	Norway	EUR / NOK 11.74	11.60	11.30
Against dollar	Japan	USD / JPY 156	152	148
	Canada	USD / CAD 1.39	1.38	1.35
	Australia	AUD / USD 0.66	0.66	0.68
	New Zealand	NZD / USD 0.57	0.60	0.60
	Brazil	USD / BRL 5.34	5.40	5.70
	India	USD / INR 89.45	88.0	88.0
	China	USD / CNY 7.08	7.10	7.10

Source: BNP Paribas

### Commodities: focus on precious and strategic metals

We are believers of a long-term commodities bull market, centred on demand for both precious and strategic industrial metals. The store of value demand from global central banks, institutional investors and retail investors should continue into 2026 as the reallocation to gold continues apace. Lower benchmark interest rates, a weaker US dollar and persistent geopolitical tensions should support precious metals demand. **We are tactically Neutral on gold but a long-term buyers, with a 12-month price target of USD 4,500/ounce for gold and USD 60/ounce for silver. We also favour exposure to gold and silver miners.**

Growing global demand from technology, electrification and defence industries are one factor in higher copper, aluminium, tin and zinc prices in 2025. Paired with this demand growth is constrained global supply, thanks to geopolitical considerations and long-term historic underinvestment in new mining supply. **We are Positive on strategic industrial metals exposure to copper, aluminium and tin as well as copper miners.**

Growing global energy demand and the accelerating electrification trend underpin energy commodities such as uranium and US natural gas as well as European Union carbon credits. Note that the biggest increase in global energy demand does not come from the US and AI-related data centres, but rather from the growing middle class in India. **We continue to favour exposure to diversified energy and metals funds, ETFs and structured solutions.**

### AVERAGE COMMODITY PRICE RETURNS TO HIGHEST SINCE 2011



Source: Bloomberg



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## 2026 Risk? US Private Credit

### Growing concerns over private credit defaults

Concerns over the health of the US private credit market were ignited in September when car dealership Tricolor and auto parts suppliers First Brands ~~both~~ collapsed. Both companies were heavy borrowers in the US private credit market, leading several US private credit funds to suffer losses on their loans to these two companies.

Since, there have been further signs of stress emerging in private credit. Recent data from Kroll Bond Rating Agency together with the failure of private credit fund manager, Blue Owl, to merge their listed and unlisted private credit funds highlight the increasing risk in this market. This is occurring in the context of tremendous growth in the size of the private debt market over the last decade. Blue Owl's share price has declined by 44% since its February peak, further confirming the worsening sentiment surrounding US private credit.

### Private credit default rates are trending higher

According to S&P Global, the trailing 12-month high-yield rated private loan default rate rose to 1.3% of all loans in Summer 2025, compared with less than 0.5% in August and September 2022. This is still well below the peak of 2.5% reached during the COVID-19 pandemic in mid-2020. But if you add so-called "selective defaults" where the terms on loans are changed to help the borrower, then the combined default rate rises to 4.6%. Albeit below the 8% peak in mid-2020 and 5.8% in March 2024, this is still double the 2022 low default rate.

### Health of many private credit borrowers deteriorates

According to the Kroll Bond Rating Agency, the health of many private credit borrowers has worsened over the last two years. Credit rating downgrades have outstripped upgrades for seven consecutive quarters to Q3 2025, particularly in the retail and chemicals industries. As a result, the number of borrowers carrying the lowest CCC- rating has reached a new record, representing around USD 14bn of private debt only 1 notch above default.

### Worse news potentially to come on refinancing

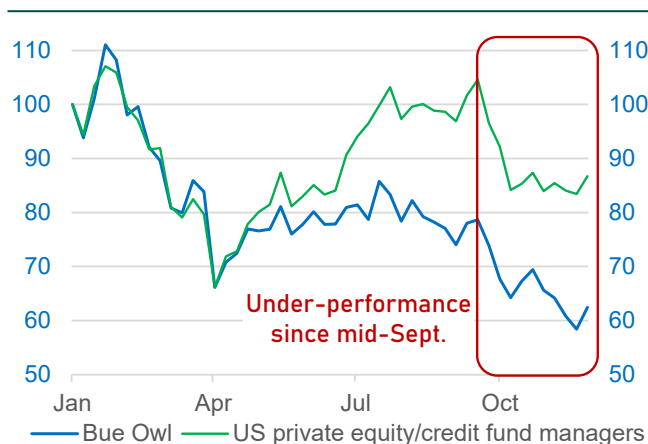
Many borrowers who took on private debt in 2021 and 2022 when interest rates were still very low may have trouble refinancing this debt, given the far higher borrowing rates today. We would expect US private credit default rates to rise further in 2026 owing to this more expensive refinancing combined with potentially slower US economic growth.

### Indicators to watch for signs of increasing stress

To judge whether these concerns are spreading from private credit markets to elsewhere in the financial system, we are monitoring five public market indicators:

- US leveraged loan ETFs;
- US business development ETFs;
- Shares of listed private credit and private equity fund management companies;
- US regional bank ETFs;
- US CCC-BB corporate bond high yield spreads.

US LISTED PRIVATE EQUITY/CREDIT FUND MANAGERS FALL



Source: BNP Paribas, Bloomberg. PE/PC fund manager stock basket includes Carlyle, Blackstone, KKR, Apollo, Ares

THE US CCC-BB HIGH YIELD SPREAD HAS STARTED TO WIDEN SINCE SEPTEMBER



Source: Bloomberg



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## 2026 Investment Themes

### 1. Ride the bull, but guard the gains

The current bull market in stocks that began in October 2022 has been powerfully boosted by i) low and falling interest rates in most countries; ii) modest positive economic growth combined with moderating inflation, and iii) government stimulus supporting growth in Europe and China.

However, investors should remain vigilant, staying alert to geopolitical risks and market volatility. Our approach is to capture further upside while protecting portfolios from potential corrections. We recommend diversifying away from US mega caps, using structured solutions for downside protection.

We favour World ex-US stocks, eg UK, Japan, quality dividend exposure in Europe and non-tech themes, such as the Industrial Renaissance in the US.

### 2. Escape shrinking cash returns

With cash deposit rates falling sharply, investors can no longer rely on cash for meaningful returns. Sovereign and corporate bond markets do not offer many obvious yield choices at present, with investment grade credit close to 15-year lows and US Treasury yields falling as the Fed cuts rates. Acting opportunistically to profit from temporarily higher bond yields will be key.

We suggest seeking yield in emerging market bonds, euro financial sector bonds, private credit, and dividend equities.

### 3. Beyond algorithms, the new AI frontiers

AI has driven tech stocks to new highs, but the next frontier lies beyond the obvious names. We see strong potential in the infrastructure powering AI—like electricity generation and transmission—and in the emerging field of humanoid robotics, particularly in Asia.

This approach helps us to avoid overvalued segments and target sustainable growth. We also like early adopters of AI in non-tech sectors globally, in the industrial, healthcare and financial services sectors.

### 4. Welcome to the new age of scarcity

Resource scarcity is becoming a defining theme, as geopolitical tensions and underinvestment constrain supply. The 2008-2020 era of lower commodity prices has now set the scene for a prolonged period of higher commodity prices.

We recommend focusing on precious and strategic metals and energy as well as companies involved in extraction and refining. These areas are set to benefit from persistent demand and limited supply.

### 5. Investing when policy rules markets

Governments increasingly struggle to keep their swollen debt burdens at sustainable levels over the long term, with deep cuts in state spending difficult to achieve when parliaments are divided. Government debt and intervention are reshaping markets, making real assets and value stocks more attractive.

We favour infrastructure, selected real estate, and industrials, as these sectors have historically outperformed in high-growth, high-inflation environments. The challenge will be navigating policy-driven changes and demographic shifts.

### 6. Opportunity Rising: the allure of Asia

Asian equity markets have outperformed in 2025, driven by governance reforms, tech innovation, and strong local investor flows. Despite this, foreign investors remain underexposed.









Broad domestic retail and institutional investor participation are a new feature of the 2025 Asian stock market rally, underlined by huge southbound investor flows from Mainland China to Hong Kong-listed technology stocks.

Key opportunities are in semiconductors, automation, robotics, batteries, and critical metals.

*The full details of our 2026 Investment Themes can be found on our website from 10 December 2025.*



## Macro, Market Views

	Macro		<ul style="list-style-type: none"> <li>- The key question in the US: how will tariffs impact the US consumer and inflation? The first signs of tariff impacts are now being seen. We expect a further slowing of domestic consumption to occur in H2, even though Q2 growth was 3.8%.</li> <li>- In the eurozone, consumer confidence is being supported by lower ECB rates. The announced German stimulus plan should boost long-term potential growth. Chinese stimulus could bring positive surprises.</li> </ul>
	Bonds	=	<ul style="list-style-type: none"> <li>- Positive on UK gilts (12-month yield target is 4.4%).</li> <li>- Neutral on eurozone sovereigns and US Treasuries post rally; prefer shorter-term (2-5 year) maturities.</li> <li>- US Fed Funds rate target 3.75%, ECB to maintain deposit rate at 2% to end-2025</li> <li>- We see the US 2-year yield at 3.6% in 12 months, 10-year yield at 4.25%.</li> <li>- Our 12-month target on the German 10-year bund yield is 2.75%.</li> </ul>
	Credit	+	<ul style="list-style-type: none"> <li>- We stay Positive on Credit given solid corporate balance sheets and cash flows, strong technicals, high carry and low volatility.</li> <li>- We prefer intermediate maturities in the eurozone and in the US.</li> <li>- We continue to like EUR IG corporate bonds, and we stay Positive on UK IG corporates (offering a 5.3% average yield).</li> </ul>
	Equities	+	<ul style="list-style-type: none"> <li>- Positive on Equities on strong liquidity and lower rates, robust growth and earnings momentum.</li> <li>- Favour UK, Japan, China, Brazil. Neutral on the eurozone and the US.</li> <li>- We have upgraded India to Overweight</li> <li>- Positive on Health Care and Utilities. In the EU, we are Positive on Banks, Industrials and Mining.</li> <li>- Neutral on US Consumer Discretionary, Technology.</li> </ul>
	Real Estate	=	<ul style="list-style-type: none"> <li>- Demand for European real estate continued to improve in Q2 2025, with investment volumes rebounding and rental yields now more attractive at 4.3%-5.0% for prime European commercial property segments. Residential property prices are also rising in Spain, Italy, Germany and the Netherlands.</li> <li>- Industrial/logistics exposure preferred for healthy yields, higher expected rental growth on robust underlying demand growth.</li> </ul>
	Commodities	=/+ /-	<ul style="list-style-type: none"> <li>- Gold: Neutral post record surge in gold price, doubling since early 2024.</li> <li>- We have slightly increased our 12-month target for gold to USD 4,500 and for silver to USD 60.</li> <li>- Positive view on strategic industrial metals, such as copper, aluminium and tin.</li> <li>- Negative stance on Oil, price range for Brent crude oil of USD 60-70 on weaker global oil demand, potentially higher non-OPEC oil &amp; gas supply and an expected reduction of OPEC+ production quota cuts in 2025.</li> </ul>
	Alternative UCITS/ Private Assets		<ul style="list-style-type: none"> <li>- Positive opinion on Macro and Long-Short Equity. We also like Event Driven strategies, in particular M&amp;A arbitrage.</li> </ul>
	FX		<ul style="list-style-type: none"> <li>- The prospect of weaker US growth, a lower Fed Funds rate and capital flows from the US back to Europe/Middle East/Asia could lead to a weaker US dollar.</li> <li>- EUR/USD 3-month target USD 1.16; 12-month target USD 1.24 (value of one EUR).</li> </ul>

## Summary of our main recommendations, by asset class

	Current Recom	Prior Recom	Segments	We overweight	We underweight	Comments
EQUITIES	+	+	Markets	UK, Japan, China, Brazil, India		Positive view on Equities justified by strong liquidity, lower rates, positive earnings results and share buybacks. Fair valuations in most countries ex-US.
			Sectors	Global Health Care, Utilities, EU Industrials, EU Banks, Global Mining	Oil & Gas, Consumer Staples	<b>Banks:</b> Still very cheap despite strong balance sheets, high ROEs and an accelerating loan growth. <b>Health Care</b> still appears undervalued, considering promising new drugs, AI benefits, and the current surge in M&A activity.
			Styles/Themes	Quality, Megatrend themes		Circular Economy, Electrification, Security, Deep Value themes
BONDS	=	=	Govies	We stay Positive on UK government bonds and US TIPS		We stay Neutral on US/German government bonds, favouring maturities less than five years. We prefer US TIPS and UK gilts. 12-month US 10Y yield target 4.25%, German 10Y bund yield 2.75%, UK 10Y gilt yield 4.4%.
	+	+	Credit	Euro IG credit, UK IG		We favour investment grade credit, focusing on EU credit on the back of decade-high yields and strong balance sheets. We remain Positive on UK IG corporate bonds.
	+	+	EM bonds	Local currency		Positive on EM bonds in local currency. Good fundamentals remain in place, further USD weakness expected.
CASH	-	-				We anticipate a 25bps rate cut in December, bringing the policy rate to 3.75% by year-end 2025, 2% maintained for the ECB deposit rate.
COMMODITIES	=/+/-	=/+/-		Copper (+)	Oil (-)	Oil (-) Weaker global oil demand and the prospect of a steady reduction in OPEC+ production cuts are forcing Brent prices into the USD 60-70 range. Base metals (+) The outlook for the manufacturing sector is helped by rising demand and constrained supply. Gold (=) Neutral after strong performance YTD. 12-month target = USD 4500, Silver (=) USD 60 12m target.
FOREX			EUR/USD			Our EUR/USD 12m target is USD 1.24.
REAL ESTATE	=	=		Residential, Health Care, logistics/warehouses		Lower interest rates and a slow improvement in net asset values should support unlisted real estate.
ALTERNATIVE UCITS				Global Macro, Long-Short Equity, Event Driven		Rising M&A volumes should support event-driven arbitrage strategies.
INFRASTRUCTURE	+	+		Energy, transportation, water		Excellent long-term returns expected from private and listed infrastructure given long-term underinvestment.





## Economic and FX forecast tables

BNP Paribas Forecasts			
GDP Growth %	2024	2025	2026
United States	2.8	1.9	1.9
Japan	0.1	1.3	0.6
UK	1.1	1.3	1.0
Switzerland	1.0	1.5	1.0
<b>Eurozone</b>	<b>0.9</b>	<b>1.4</b>	<b>1.4</b>
Germany	-0.5	0.3	1.4
France	1.1	0.8	1.2
Italy	0.5	0.7	1.1
<b>Emerging</b>			
China	5.0	5.0	4.5
India*	6.5	6.2	6.4
Brazil	3.4	2.3	1.6
* Fiscal year			
Source : BNP Paribas - 24/11/2025			

BNP Paribas Forecasts			
CPI Inflation %	2024	2025	2026
United States	2.9	2.8	3.1
Japan	2.7	3.2	2.1
UK	2.5	3.4	2.7
Switzerland	1.1	0.2	0.8
<b>Eurozone</b>	<b>2.4</b>	<b>2.1</b>	<b>1.8</b>
Germany	2.5	2.2	1.3
France	2.3	1.0	1.2
Italy	1.1	1.7	1.5
<b>Emerging</b>			
China	0.2	0.0	1.0
India*	4.7	3.2	4.4
Brazil	4.4	5.0	3.8
* Fiscal year			
Source : BNP Paribas - 24/11/2025			

	Country	Spot 30/11/2025	Target 3 months	Target 12 months
Against euro	United States	EUR / USD 1.16	1.16	1.24
	United Kingdom	EUR / GBP 0.88	0.87	0.87
	Switzerland	EUR / CHF 0.93	0.94	0.94
	Japan	EUR / JPY 181	176	184
	Sweden	EUR / SEK 10.95	11.00	10.70
	Norway	EUR / NOK 11.74	11.60	11.30
Against dollar	Japan	USD / JPY 156	152	148
	Canada	USD / CAD 1.39	1.38	1.35
	Australia	AUD / USD 0.66	0.66	0.68
	New Zealand	NZD / USD 0.57	0.60	0.60
	Brazil	USD / BRL 5.34	5.40	5.70
	India	USD / INR 89.45	88.0	88.0
	China	USD / CNY 7.08	7.10	7.10

Source: BNP Paribas, Refinitiv Datastream. As at 1 December 2025

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