Our Investment Themes 2026

BNP PARIBAS
WEALTH MANAGEMENT

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Contents

Our 2026 Investment Themes

Adapting to multiple regime changes

Lower interest rates pressure bond and cash returns

Interest rates continue to fall worldwide, led by the US Federal Reserve, with a slew of emerging market central banks following suit. Slower wage and rental growth, easing energy prices and persistent political pressure should lead the Fed to prioritise growth over inflation in 2026. The decline in short-term interest rates to as low as zero (in Switzerland's case) is mechanically pushing down long-term bond yields, despite ballooning debt levels and sizeable refinancing requirements of governments of major economies. Consequently, savers are now faced with lower returns from cash and sovereign bonds, a situation worsened by compressed corporate bond spreads now at cycle lows. The hunt for yield is back on.

Plentiful liquidity can drive stocks even higher

Several factors, including plentiful macro liquidity from the US and China, lower long-term rates, strong corporate earnings, continued demand for shares via record buybacks, and buoyant retail investor optimism, argue that global stock markets could march even higher in the year ahead despite stretched US stock valuations. In the fourth year of this market uptrend, we should also expect increasing volatility. We look for ways to participate in this continued upside potential in stocks, while limiting risks to the downside in the event of a market correction.

Just how persistent is US exceptionalism?

The 12% depreciation of the US dollar in the first half of 2025 challenged the concept of "American exceptionalism". Geopolitical volatility around tariffs, lower US interest rates, weakening Fed independence, rising US debt levels and a prospective narrowing of the economic growth gap between the US and the rest of the world suggest that dollar weakness can persist. Investors are generally heavily exposed to both US stocks and the dollar, after 12 years of steady outperformance to the end of 2024. However, 2025 marked an inflection point in this pro-US trend, with leadership shifting to World ex-US stocks and currencies. We advocate a rebalancing away from US stocks and the greenback towards the rest of the world, especially to technology-heavy Asian stock markets, which today dominate most areas of critical technology hardware.

AI will clearly be transformative, but who will really benefit?

Although most people would agree that artificial intelligence is a transformative technology revolution, which is already having a profound impact on the way we live, work and get around, the clear challenge is identifying which companies will benefit from the next huge wave. At this stage, some new trends are already clear and visible. For example, the demand for electricity will increase substantially due to AI data centres, as will demand for ultraclean water used to make computer chips and then to cool data centres. We believe that the next wave of AI will move away from large language models to physical AI in the form of humanoid robots, industrial automation and self-driving cars.

Welcome to the new age of resource scarcity

After many years of living in a land of plenty where raw materials were easily accessible and relatively cheap, we are now in an age of resource scarcity. Three factors have ushered in this new era for commodities:

i) rising demand for electricity and strategic metals owing to growing investment in technology and defence;

ii) the inability to meet this rising demand given a historic underinvestment in new mining and refining capacity for these commodities, and

iii) the greater use of resource supply serving as geopolitical leverage between countries.

In sum, we see a new long-run bull market for commodities.

We invite you to go further by reading more about our six annual investment themes.

1

Ride the bull, but guard the gains

Nervous bull

The current bull market in stocks that began in October 2022 has been powerful. Investors in the MSCI World index have benefitted from a 92% return in US dollars and 61% in euros to end-October 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.

Even if a "melt-up" scenario of accelerating stock market gains is possible over the first half of 2026 on the back of these prevailing forces, investors should recognise that this could still occur despite considerable geopolitical uncertainty and elevated market volatility. Maintaining exposure to stocks while limiting downside risks will be key.

Key risks

- Current profits can be lower than the markets' growth if the markets pursue their performance for longer.
- Economic recession could bring this bull market to an end, should the US slowdown prove deeper than expected.

Our recommendations

At this point in the business cycle, we advise clients to balance potential positive stock market returns against the ever-present risk of a market correction, via:

- Structured solutions with downside protection
- Currency-hedged US stock funds and ETFs
- Rebalancing of exposure away from US mega-cap stocks towards other regions and to more value and mid-/small-cap exposure
- Positioning in "out-of-favour" regions, sectors and themes
- Defensive sector and low-volatility stock funds and ETFs
- Equity market-focused hedge funds and alternative UCITS funds
- Other asset classes including commodities and other real assets

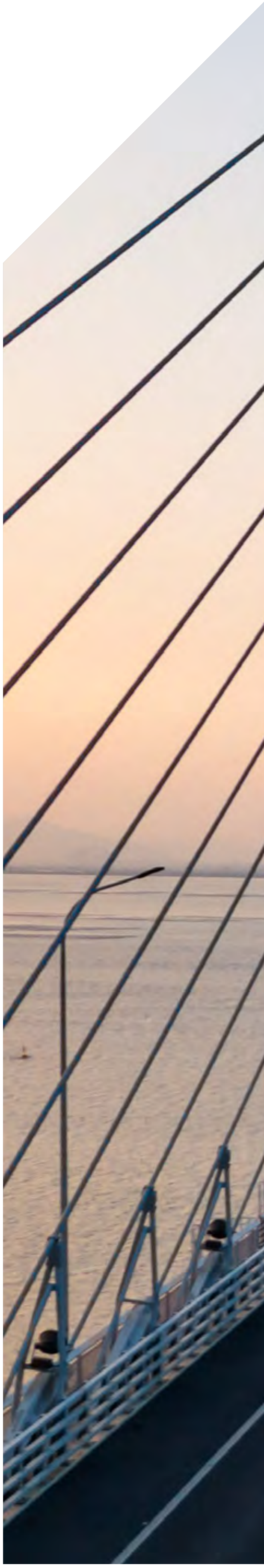
2

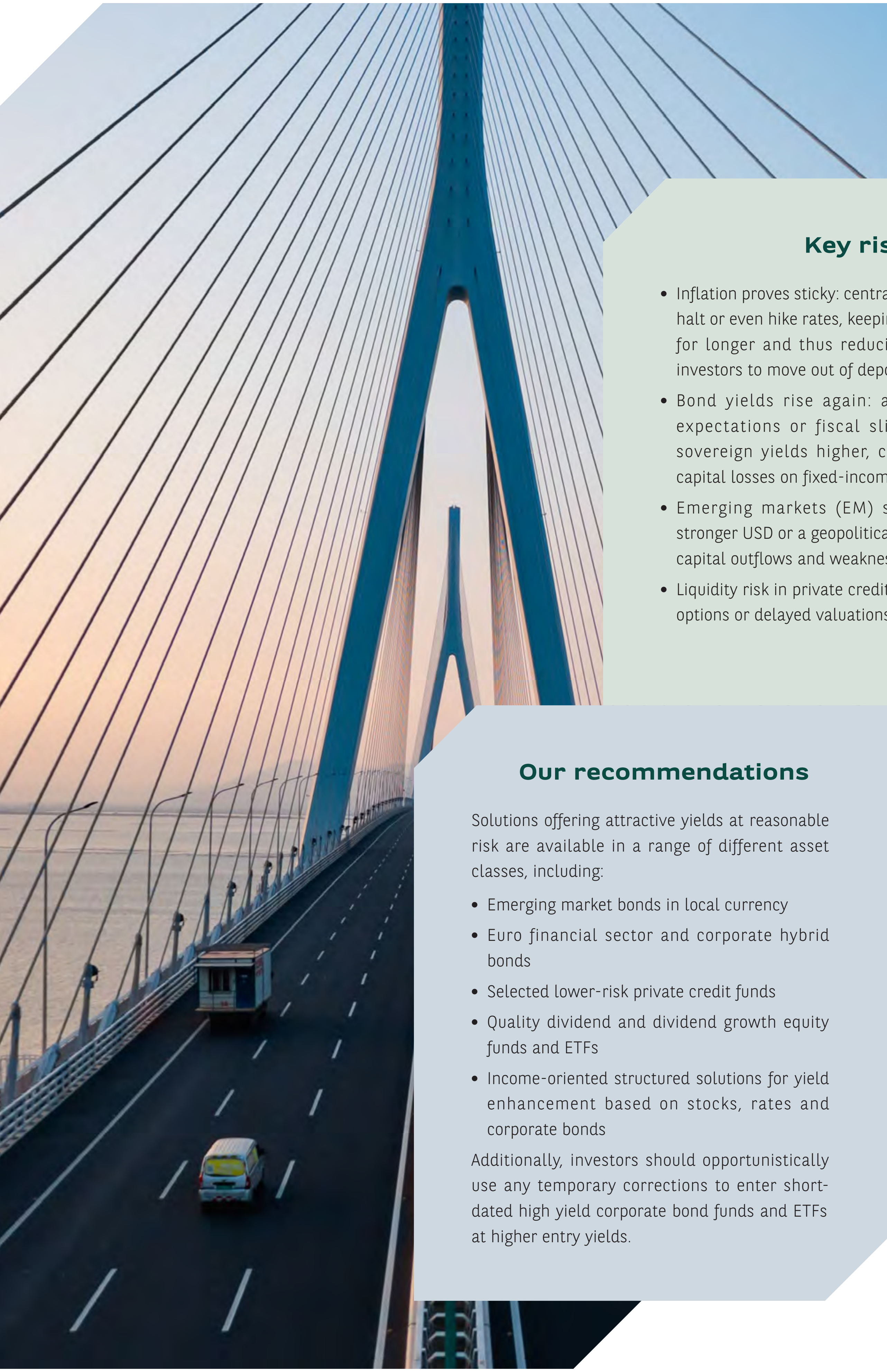
Escape shrinking cash returns

Hunt for yield

Euro cash deposit rates have halved from their 2024 highs, and US dollar savings rates are now following as the Federal Reserve resumes interest rate cuts. With over EUR 9 trillion in eurozone household deposits and over USD 7 trillion in US money market funds, which will generate much lower returns in 2026 and beyond, cash-rich investors are once again obliged to look further afield for reasonable expected rates of return.

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 in 2026.





Key risks

- Inflation proves sticky: central banks are forced to halt or even hike rates, keeping cash yields higher for longer and thus reducing the urgency for investors to move out of deposits.
- Bond yields rise again: a repricing of rate expectations or fiscal slippage could send sovereign yields higher, creating short-term capital losses on fixed-income positions.
- Emerging markets (EM) sentiment sours: a stronger USD or a geopolitical shock could trigger capital outflows and weakness in EM currencies.
- Liquidity risk in private credit: limited redemption options or delayed valuations in less liquid funds.

Our recommendations

Solutions offering attractive yields at reasonable risk are available in a range of different asset classes, including:

- Emerging market bonds in local currency
- Euro financial sector and corporate hybrid bonds
- Selected lower-risk private credit funds
- Quality dividend and dividend growth equity funds and ETFs
- Income-oriented structured solutions for yield enhancement based on stocks, rates and corporate bonds

Additionally, investors should opportunistically use any temporary corrections to enter short-dated high yield corporate bond funds and ETFs at higher entry yields.

3

Beyond algorithms, the new AI frontiers

Accelerating the AI revolution: powering what comes next

The first wave of artificial intelligence euphoria has carried the Magnificent 7 to new highs and to increasingly lofty valuations. While AI-related investment in computing power and data centres rises inexorably amid a race for large language model dominance, we see this investment surge as a potential risk for investors.

We prefer to target two other fast-growing areas of AI-related technology that are now attracting significant and lucrative investments: i) electricity generation, transmission infrastructure and cooling systems to support the escalating demands of AI data centres, and ii) Agentic AI, the next generation of AI that can learn autonomously, make decisions with flexibility and independence, and adapt to new situations. While automation and robotics still have significant potential for growth, Agentic AI is set to impact virtually all industries, enabling innovative applications and use cases.

Key risks

- AI adoption and monetisation are slower than expected, especially if some of the bottlenecks we mention in this theme turn out to be complex to resolve.
- Massive investment by hyperscaler companies in AI may result in poor ultimate returns on investment due to intense global competition. If returns on investment are lower than anticipated, the rollout of AI could be delayed.
- A recession could lead to a reduction in AI budgets, potentially hindering the progress of AI implementation and slowing down the realisation of the potential benefits.
- Security aspects likely to become more important in the whole AI ecosystem.

Our recommendations

A theme focused on AI's next stage and what it will require, *via* equity-based solutions, funds and ETFs.

- Power generation, transmission infrastructure, energy storage (batteries)
- Nuclear power
- High-end chips designed for data transfers, storage and computing; sensors
- Certain metals and special materials, such as copper, lithium, aluminum, titanium, lightweight composites, some rare earth elements
- Efficient cooling systems, water-related technologies
- Cybersecurity
- Robotics and humanoids-related hardware and software
- New (Agentic) AI applications in healthcare, finance and other industries.

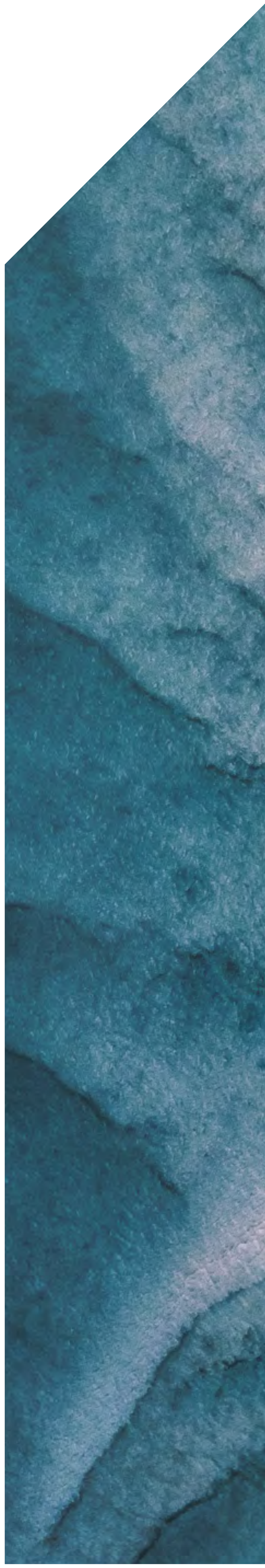
4

Welcome to the new age of scarcity

The New Age of rationed resources

The rise of tariffs, the reverse of globalisation and mounting conflicts have underlined the geopolitical importance of the security both in critical minerals and energy. Global demand for strategic metals and different sources of energy continues to grow, partly thanks to expanding technology investment, while supply remains constrained after years of underinvestment in new production capacity. Precious metals benefit from a different source of increasing demand, principally driven by the desire for de-dollarisation by sovereign nations and central banks outside the US, thereby driving gold and silver to new all-time highs in the face of limited primary supply growth.

As is often said in the commodities world, “the cure for low prices is low prices”. The 2008-2020 era of lower commodity prices has now set the scene for a prolonged period of higher commodity prices, in our view, until supply can finally react to stronger demand and higher prices. However, this will take years to reach, given the long lead time between rising commodity prices and capital investment in new mining and refining capacity.



Key risks

- A slowdown in demand for commodities in the event of an economic recession.
- The appetite for safe-haven assets, such as precious metals, could fall if geopolitical tensions ease.
- Commodity prices can be volatile, as there is an element of speculation involved.
- Some supply disruptions that have boosted metal prices recently could be temporary as shuttered or paused mining capacity is brought back on stream.

Our recommendations

A theme focused on:

- Precious metals
- Strategic metals
- Energies critical in technology
- Renewable energy production and storage
- Companies involved in the extraction and refining of these commodities
- Companies active in water purification and infrastructure
- Structured solutions based on precious or industrial metals, or on mining companies

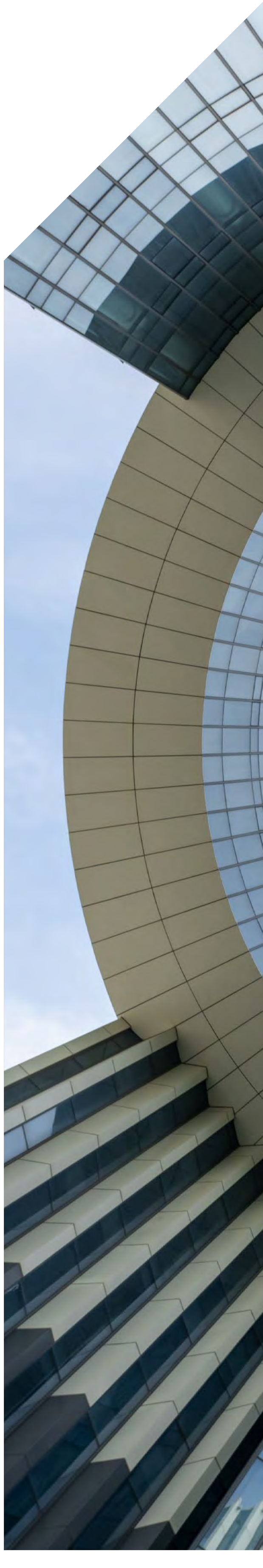
5

Investing when policy rules markets

Fiscal Dominance

Government debt burdens have swelled to historic highs across the world, fuelled by jumbo COVID-related fiscal spending plans, inflationary increases in benefit spending and rising debt interest costs. Governments increasingly struggle to keep their debt burdens at sustainable levels over the long term, with deep cuts in state spending difficult to achieve when parliaments are divided. Debt sustainability can be achieved over the long term through i) faster economic growth to boost tax receipts, and ii) financial repression by central banks and governments to achieve a lower cost of debt. These factors reduce the risk-adjusted return of long-term nominal bonds.

Longer life spans and stretched government budgets require people to work longer before they retire. The average retirement age is set to increase in the years to come. Governments are introducing incentives to work via reduced taxes and social charges. This presents opportunities in senior consumption and services, e.g. in insurance and wealth management.



Key risks

- A pronounced, prolonged bout of global disinflation that could conceivably be unleashed by rapid implementation of artificial intelligence applications to boost productivity.
- This would suppress long-term bond yields, allowing governments to more easily fund current debt burdens and future budget deficits at reduced costs of financing.

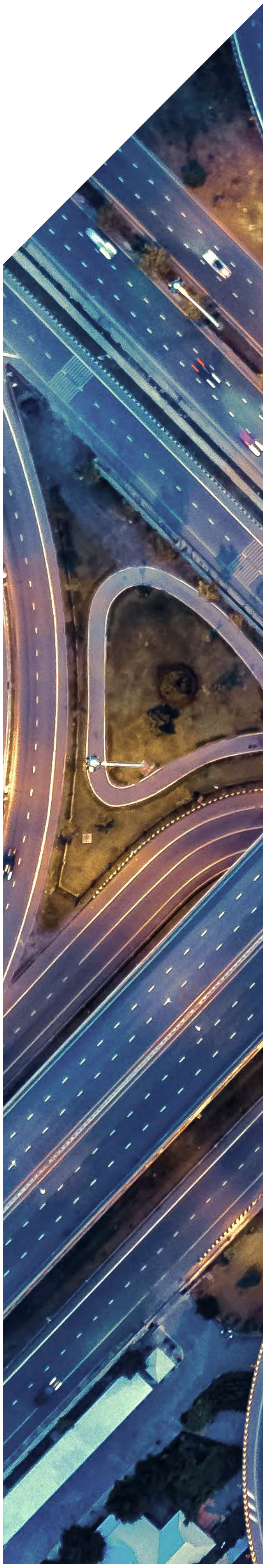
Our recommendations

We favour:

- Real estate, focusing on the residential, healthcare, warehouse and self-storage segments
- Infrastructure funds, both private and listed
- Inflation-protected bonds such as US TIPS
- Global macro and trend-following hedge funds and alternative UCITS funds
- Commodities exposure (precious and industrial metals, energy)
- Small/mid-cap equities in Europe and emerging markets
- Quality dividend and dividend growth equity funds and ETFs, particularly in Europe and in emerging markets
- Inflation-plus business model stocks in monopoly and oligopoly sectors, able to pass on the price increase

6

Opportunity rising: the allure of Asia

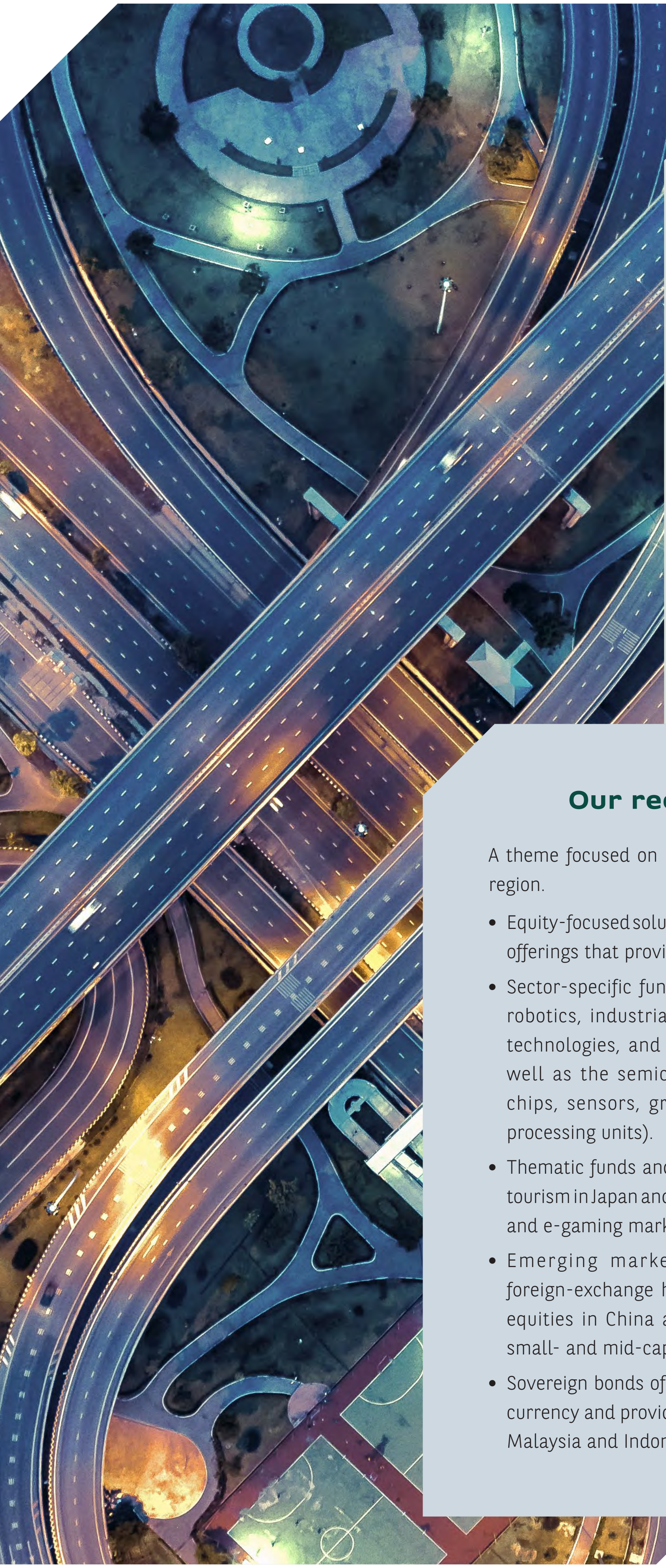


Rediscovering the allure of Asia

2025 was a banner year for Asian stock exposure particularly Chinese technology, Taiwanese semiconductors, Japan and South Korea. Despite strong performance from each of these Asian stock segments, foreign investors remain underexposed to Asian stock markets in favour of the US. In addition, Asian equities have shown large underperformance to US equities since 2009.

Corporate governance reforms with a consequent improvement in profitability and shareholder returns have been very evident in Japan and latterly in South Korea, while the heavy technology hardware and e-commerce exposure to the Asian technology and industrial sectors has begun to profit from the broadening investment in AI-related beneficiaries.

Broad domestic retail and institutional investor participation is a new feature of the 2025 Asian stock market rally, underlined by huge southbound investor flows from Mainland China into Hong Kong-listed technology stocks. We expect further positive momentum both in terms of profitability and retail investor sentiment and we focus on key areas of technology including semiconductors, industrial automation and robotics, plus batteries and critical metals.



Key risks

- Policy uncertainty in China as stimulus is not enough and the property market relapses into a downturn which impacts consumption. This would increase the risk of persistent deflation and rising loan defaults.
- The return of the bond vigilantes as Japan loses control of the long-end of the curve, creating volatility in the yen and long-term bond yields.
- A trade war re-emerges between the US and China.
- A major downturn in the technology Capex cycle in the event of an AI bubble, and if Northern Asia is geared to this spending.
- A stronger US dollar leading to tightening financial conditions in Asia. Rate cuts become much more difficult as Asian countries need to support their currencies.

Our recommendations

A theme focused on increasing allocations to the Asia region.

- Equity-focused solutions including structured-product offerings that provide exposure to listed equities.
- Sector-specific funds and ETFs targeting humanoid robotics, industrial automation, advanced battery technologies, and rare-earth metal production, as well as the semiconductor value chain (memory chips, sensors, graphics processors, and central processing units).
- Thematic funds and ETFs concentrating on domestic tourism in Japan and South Korea and on video-gaming and e-gaming markets in Japan and China.
- Emerging market funds and ETFs featuring foreign-exchange hedging and a focus on domestic equities in China and Japan, with an emphasis on small- and mid-cap companies.
- Sovereign bonds of emerging markets issued in local currency and providing exposure to countries such as Malaysia and Indonesia.

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