

Equity Focus

Gunboat Capitalism

Summary

1. **Gunboat Capitalism** – The year started well for equities as the overall backdrop remained constructive. The recent geopolitical events are likely to create fresh bouts of volatility as the US seem to be increasingly embracing a “law of the jungle” approach.
2. **We remain on course** – Unless our base case of solid economic growth is derailed, we remain pro-risk, overweighting equities while maintaining our regional calls.
3. **Corrections are normal** – During the last 50 years, the average intra-year drawdown for the S&P exceeded 18% while the average year still returned ~12.8% (Chart 5). Thus, the potential occurrence of a meaningful correction exceeding 10% could rather represent an opportunity to deploy cash than to panic.
4. **Sectors** – Our key global (and US) sector recommendations remain Energy infrastructure, Mining, Utilities and those innovative industries that should quickly profit from implementing AI, such as the Biotech industry and other innovative Health care companies. Certain Industrials and Financials are also expected to do well.
5. **Banks – still attractive**: After recent gains, we believe investors should maintain exposure to the sector but with greater selectivity. The focus should be on solid banks that have lagged in the market rally and those catching growth opportunities. Embrace pullbacks to increase exposure.

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CHART 1: GUNBOAT CAPITALISM – A NEW ERA OF TRADE POLICIES



Source: The Economist

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Gunboat Capitalism

"Ninety thousand tons of diplomacy" (Northrop Grumman)

2026 had an encouraging start with the S&P gaining ~ 1.75% during the first 6 trading days of the year. This is usually a harbinger of an above average year: History suggests that a strong opening to the year acts as a significant tailwind for equity markets. An analysis of S&P 500 performance data over the past 50 years reveals a compelling correlation between early momentum and full-year returns. While the average annual return across all years stands at 10.3%, years with a positive start (6d performance > 1,25%) have historically delivered an average return of 15.8%. Moreover, early strength dramatically increases the probability of a positive finish. In years where the market started in the green, 83.3% ended with a positive annual performance vs. a 76.5% baseline probability (Chart 2).

Will the "HMS Resilient Global Macro"....

While equities are not cheap (see Table 1), the overall macroeconomic backdrop remained constructive. This includes the US where several factors point to ongoing tailwinds for the economy, e.g. the "One Big Beautiful Bill (OBBB)" extends 100% expensing for equipment and factories to encourage capex and hiring, eliminates federal income tax on overtime pay and tips and increases the child tax credit to USD 2,200 per child.

More broadly, the global economy was much less negatively impacted by the impact from tariffs, than many have feared. The global economic surprise index remains firmly in positive territory, as the index completed a full year of positive macro surprises. That is the third longest run of positive global data on record,

and is even more remarkable when compared to the extent of economic and geopolitical uncertainty (Charts 3 & 4). Numbers have proved far more constructive than headlines might suggest.

.....be sunk by the "USS Donroe Doctrine"?

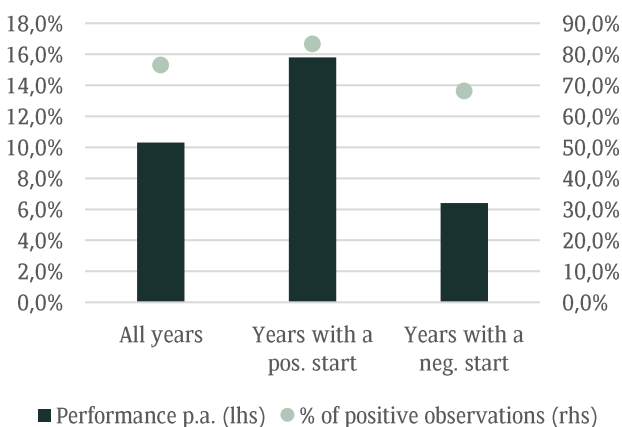
This constructive backdrop seems to be tested once again by the [Donroe Doctrine](#) and the associated [Gunboat Capitalism](#). The US intervention in Venezuela caught markets by surprise but had limited impact on equities. While the move caused some longer lasting geopolitical questions in respect to Ukraine and Taiwan, it was broadly seen as having no imminent impact on trading relationships or the economy. If anything, it was a slight positive as lower oil prices contributed to falling gas prices, providing relief to the American consumer.

However, the attempts to gain control over Greenland and the associated threats are a different topic. At the time of writing, the situation seems to escalate as the US are willing to impose extra tariffs of 10% on several European countries while Europe is [unlikely](#) to ratify the trade deal and is even openly considering to enact its Anti-Coercion Instrument. In principle, it allows the EU to block access to most of the single market while ignoring existing international treaties. But its main purpose is more to bring an opponent back to the negotiation table. In any case, trade uncertainties are going to rise which should result in periods of extended volatility.

There might be rough waters.....

Global trade wasn't the only target of bombardment by the "USS Donroe Doctrine". Legal investigations

CHART 2: THE START OFTEN SETS THE TONE FOR THE YEAR



Source: BNP Paribas, Bloomberg

CHART 3: A STRONGER THAN EXPECTED ECONOMY



Source: BNP Paribas, Bloomberg

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into Federal Reserve chair J. Powell also caused some renewed questions about the independence of the US central bank. While we think that this move is more likely to backfire – the immediate bipartisan support for the FED and J. Powell indicates that it became harder for Trump to promote a candidate seeing as monetary-policy-adjutant – it might create ongoing volatility.

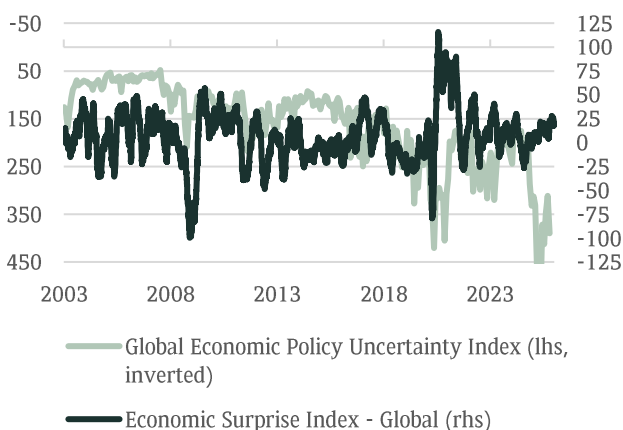
It's also worth keeping in mind, that during the last 50 years, the average intra-year drawdown for the S&P exceeded 18% while the average year still returned c. 12.8% (Chart 5). Thus, the potential occurrence of a meaningful correction exceeding 10% could rather represent an opportunity to deploy cash than to panic.

.....but we keep the course

As the overall perspectives for earnings growth for the US market are still looking reasonable low (Chart 6) – leaving some room for upside surprises – we think a neutral US allocation remains warranted. If our base case holds and the economic outlook isn't derailed, we should see our call to diversify away from US mega-cap (tech) companies keep working. A backdrop of wide valuation spreads, solid economic growth, and friendly monetary policy bodes well for continued strength in value and small & mid cap companies in the coming months. Given our negative dollar view, hedging FX-risk still looks appropriate.

In Europe, the re-occurrence of trade & tariff risks confirms our cautious view on US-exposed names. Currency and potential tariff headwinds (mainly Section 899) remain the biggest threat to earnings growth for this pocket of the market. We keep our neutral view and reiterate our preference for domestically exposed names, benefitting from the ongoing strive to increase the European autonomy.

CHART 4: THE ECONOMY WEATHERED THE TRADE UNCERTAINTIES QUITE WELL



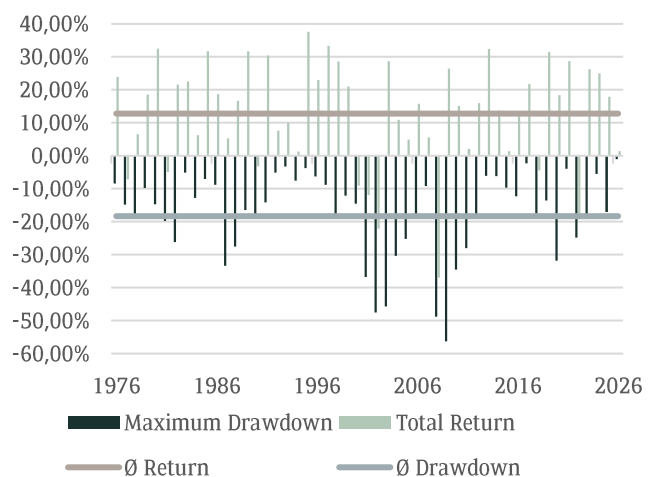
Source: BNP Paribas, Bloomberg

UK equities also remain attractive. They remain cheap versus history and offer exposure to Healthcare, Commodities and Financials.

Japan will see a lower house election on the 8th of February as Prime Minister Takaichi-san is looking to monetize her high personal approval ratings to achieve a stronger mandate for her ruling coalition. If successful, the path of an expansive fiscal policy should be continued, adding additional support for the governance / corporate structure reform self-help-case. We remain overweight.

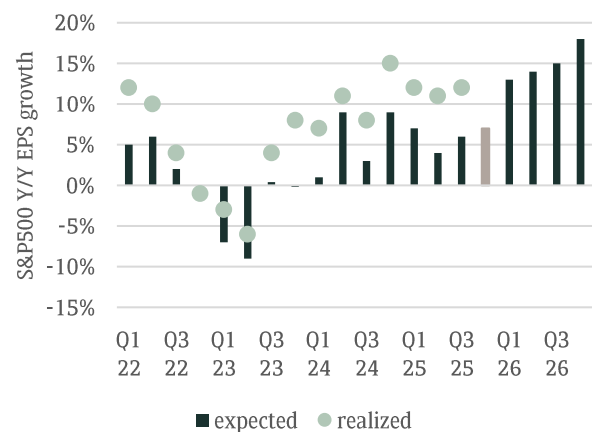
The outlook for Emerging Market Equities remains relatively favorable. Growth is solid and the region is less impacted by the most recent rise in tariff disputes. In addition; we still believe that the market has not fully appreciated the benefits from AI.

CHART 5: 15%+ DRAWDOWNS ARE COMMON WITHIN THE S&P 500



Source: BNP Paribas, Bloomberg

CHART 6: EPS GROWTH EXPECTATIONS ARE LOOKING BENIGN



Source: BNP Paribas, Bloomberg



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US and Europe Sector allocation & review

No change this month

The S&P 500 hit new highs in December, but some doubts related to AI and its winners have continued to weigh on technology indices. By month end, the S&P 500 index failed to sustain gains, closing with a slight decline of -0,1%.

Next to the underperformance of tech-related sectors and the Nasdaq, all defensive sectors ended December in negative territory. Conversely, cyclicals outperformed, reflecting confidence in the resilience of the US economy, despite persistent doubts about consumer spending.

Q4-25 Sector Performance Highlights:

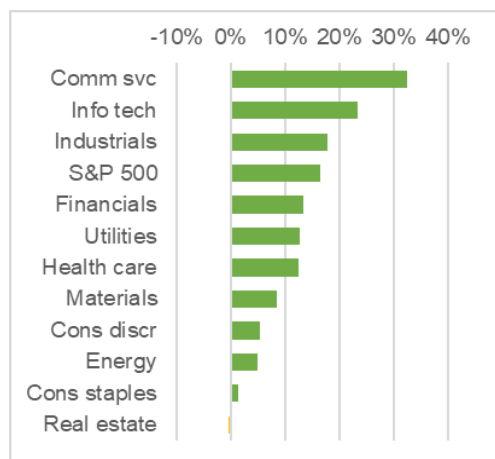
- Health Care (+11.2%) led gains, driven by agreements between major pharmaceutical firms and the US administration (more details in our Dec. Equity Focus).
- Communication Services (+7%) ranked second, boosted by Alphabet's strong performance and optimism around its upcoming Gemini 3 system.
- Financials (+1.64%) secured third place, though with a more modest advance.

For the year 2025, the star performers were the AI related sectors (see chart below).

Our key global (and US) sector recommendations remain Energy infrastructure, Mining, Utilities and those innovative industries that should quickly profit of AI, such as the Biotech industry and other innovative Health care companies. Certain Industrials and Financials are also expected to do well.

We maintain a cautious stance on consumer-related sectors, particularly Consumer Staples (Underweight), given sluggish growth and rising pressure from health-conscious consumer trends.

CHART 7: 2025 US SECTOR PERFORMANCE : AI SECTORS LEAD ; REAL ESTATE, ENERGY AND CONSUMPTION SECTORS BEHIND.



Source: S&P 500, 2025 performances as at 31 December 2025.



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European equities indices advanced in December, with Stoxx 600 index gaining +2,73%. Mirroring the US trend, financials and cyclicals led the way: basic resources (+10,31%), banks (+7,89%) and retail (+7,40%). Meanwhile, energy, real estate, chemicals, food, beverage & tobacco sectors ended the month in negative territory (we do not favour these sectors).

In Q4-25, the best European sectors were:

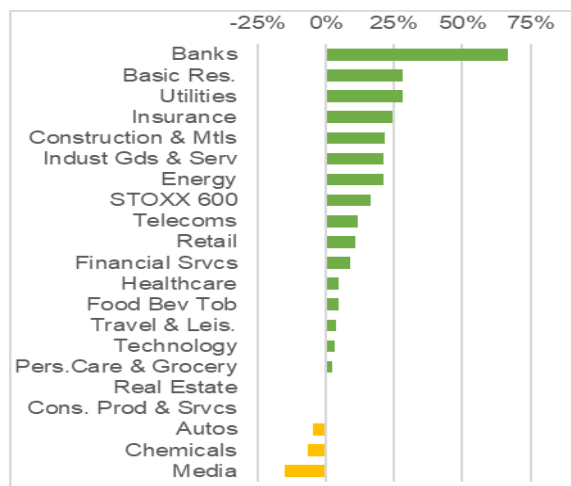
- Basic Resources (+19,43%), driven by a rebound of energy transitions metals, precious metals and by anticipated sector consolidation. We have long recommended exposure to these metal miners.
- Banks (+13,95%), as still relatively cheap, benefiting from Europe's economic recovery and other new business opportunities, operational efficiencies, and limited exposure to tariffs. (See our dedicated banks section in this report.)
- Health Care (+10,88%), recovering from a low base, supported by agreements between major pharma companies and the US administration (more details in our Dec. Equity Focus).
- Utilities (+10,62%), still attractively valued, and capitalizing on rising electricity demand.

On the other hand, technology, chemicals and media all closed Q4-25 in negative territory.

Remember that in both the US and European regions, we consider it sound (and bullish !) to observe sector rotation.

European banks ended up 2025 far ahead (+67% ex dividend) while sectors facing structural challenges, such as intense Chinese competition, struggled.

CHART 8: 2025 EU SECTOR PERFORMANCE : FINANCIALS AND INFRASTRUCTURE RELATED LEAD ; SOME EXPORTERS POST LOSSES.



Source: Stoxx600, 2025 performances as at 31 December 2025. **The bank for a changing world**

How much upside remains for Banks After Stellar Performance in 2025?

European banks recorded an exceptional year in 2025, with returns of +67% (in EUR and excluding dividends), far outperforming all the other European and US sectors. They surpassed the STOXX 600 index (+17% in EUR) and the S&P 500 (+16% in USD, +3% in EUR).

Takeoff After Many Challenging Years

After 15 lean years (2007–2022) marked by repeated crises and restructuring, European banks had become very cheap. Then, the environment shifted in their favour, buoyed by a) a robust economic recovery, b) rising interest rates, and c) a steeper yield curve. Today, they are better capitalized and more resilient than virtually ever before. We had recognized these shifts early and, in fact, ranked European banks among our preferred market segments throughout 2025 (and even before).

The sector continued to positively surprise, with earnings frequently exceeding expectations—while also benefiting from limited direct exposure to U.S. tariffs.

New Opportunities After Major Restructuring

The economic rebound is supporting key banking divisions, including lending, investment banking, and market activities. Regulators on both sides of the Atlantic have also become less restrictive. New opportunities should emerge with:

- The Savings & Investment Union and the Capital Markets Union (potential deeper financial integration in Europe)
- Major European infrastructure and defense plans, which will require substantial financing.

Further efficiency gains are expected as banks integrate AI into their operations.

Risks Remain, Though Mitigated

In terms of risks, the primary concern for banks is a sharp economic slowdown, which could increase non-performing loans and weaken trading and investment banking activities. But for now, the likelihood of such a scenario remains low, given the strong support from current monetary and fiscal policies.

Another risk is intense competition, particularly from less regulated or newer players that don't carry the legacy cost structures weighing on some traditional banks.

Outlook for the U.S. Banking Sector?

American banks are more expensive than their European peers but also further advanced in productivity gains and AI adoption. They also benefit more from the rebound in investment banking activities. When Goldman Sachs and Morgan Stanley released their strong results on January 15, they confirmed that investment banking was gaining momentum. While other major U.S. banks (JPMorgan, Bank of America, Citigroup, Wells Fargo) also posted solid results, these looked less impressive. All things considered, we see less upside potential in U.S. banks compared to their European counterparts.

Conclusion

After recent gains, we believe investors should maintain exposure to the sector but with greater selectivity. The focus should be on solid banks that have lagged in the market rally and those catching growth opportunities. Try to buy on pullbacks given the new highs reached.

For 2026, following a strong 2025, we estimate that the European banking sector still has ~15% upside potential (excluding dividends). A P/E ratio of 11–12x appears more realistic than the current 10x, given solid fundamentals, continuing profitability/ ROE improvements and robust earnings growth.

CHART 9: EUROPEAN BANKS STILL RELATIVELY CHEAP ON A HISTORICAL AND RELATIVE BASIS DESPITE NOW VERY SOLID FUNDAMENTALS.

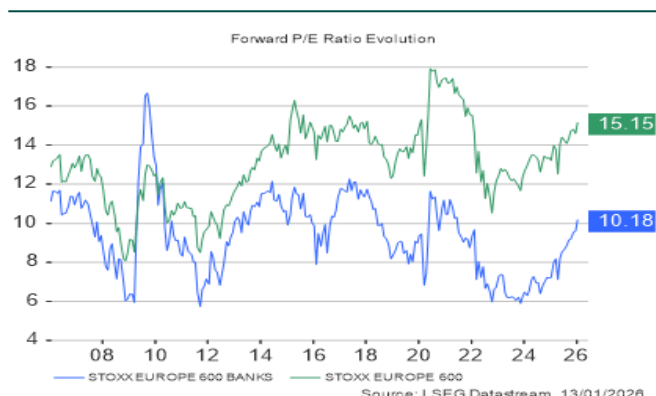
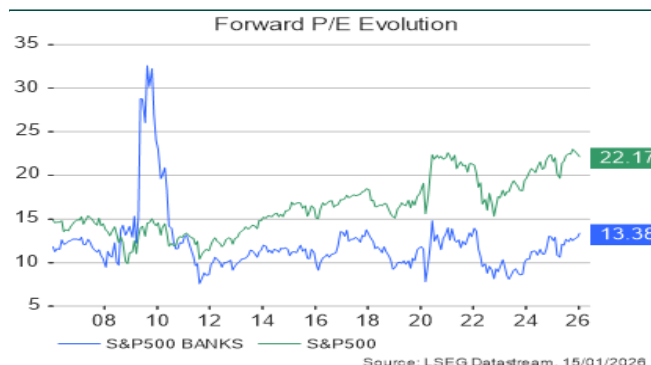


CHART 10: US BANKS NOT SO CHEAP ON A HISTORICAL BASIS BUT PROFITING FROM NEW OPPORTUNITIES.



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European and US Sectors in a nutshell

Sector (STOXX Europe 600)	View			YTD	Out/ underperf. vs index	Our view at a glance
	UW	N	OW			
Banks			X	66,95%	50,29%	Valuations still reasonable (avg P/E: 10). Balance sheets are solid and profitability is high. EU infrastructure, defense plans & M&As create new opportunities as well as a possible EU Capital Market Union.
Financial Services			X	9,10%	-7,56%	Improving capital markets activity and expected deregulation offer support, especially to exchanges and private markets. Stay selective among asset managers due to challenges from the active to passive shift.
Health Care			X	4,64%	-12,02%	Defensive compounder with attractive valuations. This sector should be a key AI beneficiary: expect efficiency gains in a structurally growing market (e.g. demographics, obesity etc). Key risks: weakening USD, tariffs. Negotiations with the US administration (lowering drug prices, etc) look more constructive now.
Industrial Goods & Services			X	21,28%	4,62%	A main beneficiary of infrastructure, defense spending, data centers construction, renewable energy projects, re-/ nearshoring, and electrification although short term, there are some market frustrations that these investments are a bit slow to translate in new earnings.
Utilities			X	28,00%	11,34%	European infrastructure spending and energy independence willingness are supporting whereas (green and AI-related) power demand continues to grow.
Basic Resources	X			28,16%	11,50%	The sector in Europe has the highest correlation to China due to the high revenue exposure (~ 36%). Next to names exposed to energy transition & precious metals, look at some industrial metals now recovering.
Chemicals	X			-6,81%	-23,47%	The sector should profit from EU infrastructure plans, lower energy prices, as well as from some end markets revivals. Strong competition from China, overcapacity and tariffs (+ related uncertainties) hurting.
Construction Materials	X			21,51%	4,85%	(German) infrastructure spending has been a key catalyst but it seems priced in now. Rebuilding Ukraine theme still distant. Heavy side names might benefit from US-China tariffs as they produce locally.
Cons. Products and Services	X			-0,46%	-17,12%	Despite higher consumption in Europe, the sector suffers from tariffs and from the strong euro. Chinese consumption still sluggish. Globally, some high end markets doing well. Be selective.
Insurance	X			24,52%	7,86%	Solid and rather defensive sector that strongly outperformed in 2024 and in H1 2025. Cash returns attractive but European insurance now looks fully priced at an avg fwd P/E slightly above 12. Be selective.
Real Estate	X			0,31%	-16,35%	Defensive sector potentially hit by new European expansionary budgets and rising bond yields. Logistics and data center enjoy tailwinds from e-commerce/ AI. Be selective.
Retail	X			10,68%	-5,98%	The sector has now found some capital discipline allowing for cash distribution. However, tariffs now putting pressure on margins as imported goods are becoming more expensive.
Technology	X			3,15%	-13,51%	Hardware/ Semis related to AI have been outperforming whereas some software & services are facing the risk of business loss to AI.
Telecommunications	X			11,96%	-4,70%	Despite weak top line growth, the industry's falling capital intensity driven by the fibre cycle & the sector's free M&A option are supporting performance.
Auto & Parts	X			-4,81%	-21,47%	Automotives still weak due to rising competition with China, high EV investment costs, excess inventories, and bad pricing. Trade tensions have created further complications.
Energy	X			20,92%	4,26%	Oversupply & new US administration policies are capping the upside in oil related. Saudi still flooding the market. We prefer renewables and infrastructure related names.
Food, Bev and Tobacco	X			4,54%	-12,12%	Valuations still high compared with the rest of the market and considering the sluggish earnings growth of the sector. Lack of upside catalysts except for its defensive profile. Favour 'self help' stories.
Media Price EUR	X			-15,10%	-31,76%	AI full impact on business models still unclear. Meta Platforms another threat as entering many (European) media businesses and grabbing more and more ads business/ market share.
Personal Care	X			2,45%	-14,21%	The sector still faces headwinds from rising input costs while consumers are increasingly price sensitive. Lack of upside catalysts.
Travel & Leisure	X			3,64%	-13,02%	Lower oil prices a support but high competition and capacity expansion putting pressure on margins.

Sector (S&P 500 Level 1)	View			YTD	Out/ underperf. vs index	Our view at a glance
	UW	N	OW			
Health Care			X	12,53%	-3,86%	Defensive compounder with solid earnings in a structurally growing market (e.g. demographics, obesity etc). AI to bring more efficiency gains. Further deregulation could bring extra support. Negotiations with the US administration (lower drug prices, etc) look more constructive now.
Utilities			X	12,69%	-3,70%	Growth in power demand should remain solid due to AI tailwinds & electrification. EPS growth expectations accelerating. Accumulate.
Communication Services	X			32,41%	16,02%	The sector is dominated by 2 mega tech companies having considerably re-rated. The rest of the sector is not cheap either. Be selective.
Consumer Discretionary	X			5,31%	-11,08%	The sector is dominated by 2 expensive mega tech companies, facing various issues. However, their strong exposure to AI, automation and robotics keeps attracting interest. Other names in the sector could profit from a relatively resilient discretionary consumption in the US.
Financials	X			13,32%	-3,07%	Profits and balance sheets quite solid but the sector looks fully priced. Deregulation a strong support now.
Industrials	X			17,70%	1,31%	Re-shoring and US reindustrialization are supposed to be major tailwinds but lots of good news look priced in.
Information Technology	X			23,31%	6,92%	Trading at heavy premium vs the market. Despite rising worries of AI-related overinvestments & possibly of disappointing ROIs to come, the market remains very optimistic about AI monetisation. Strong earnings growth has been supportive. Some sub-sectors such as SaaS are however at risk of losing business to AI. Not all Mega tech names will be winners. Be selective.
Materials	X			8,43%	-7,96%	Medium term, the sector should benefit from reshoring/ reindustrialization/ lower energy prices. In the short term, we prefer stocks with exposure to precious and industrial metals as well as energy transition metals mining.
Real Estate	X			-0,35%	-16,74%	Activity is still sluggish in residential RE. New construction activity is muted. Commercial RE stabilising. Momentum is better at communications towers and at some other specialized REITs.
Consumer Staples	X			1,32%	-15,07%	The sector looks fully priced, particularly the big merchandisers and staples retailers. Costs are rising due to tariffs. Besides, consumers may continue to "trade down" due to economic uncertainties.
Energy	X			4,96%	-11,43%	Oversupply capping oil related. We prefer energy infrastructure names as they benefit from bottlenecks, rising transportation and storage needs while paying attractive dividends.



Valuations

TABLE 1: GLOBAL INDICES

Forward															Composite		
Index	Level	1yr Range	EPS	5yr Z-Score	EPS change 4 weeks (%)	PE Ratio	5yr Z-Score	PB Ratio	5yr Z-Score	Div Yield	5yr Z-Score	ROE	5yr Z-Score	Earnings Yield	5yr Z-Score	vs. ACWI	5yr Z-Score
MSCI ACWI	1038		51.86		0.38	20.02		3.43		100.86		16.05		4.99		n.a.	n.a.
MSCI World	4515		214.32		-0.12	21.07		3.71		1.69		16.45		4.75		1.06	
MSCI Emerging Markets	1485		103.38		3.17	14.36		2.14		879.74		14.27		6.96		0.70	
S&P 500	6940		300.40		-0.01	23.10		4.97		1.20		19.92		4.33		1.20	
S&P 500 Equal Weighted	8061		428.87		-0.15	18.80		3.04		1.92		14.59		5.32		0.93	
Russell 2000	2678		92.33		-0.31	29.00		1.41		1.91		3.90		3.45		1.30	
NASDAQ 100	25529		961.58		0.66	26.55		7.45		0.68		24.99		3.77		1.45	
MSCI USA Growth	32432		547.06		0.23	31.40		11.70		0.36		34.15		1.69		1.84	
MSCI USA Value	16462		233.82		-0.05	18.67		3.28		1.98		16.20		1.42		0.94	
STOXX Europe 600	607		38.35		0.43	16.02		2.28		3.30		13.57		6.32		0.78	
STOXX Europe Mid 200	633		40.04		0.65	15.98		1.99		3.54		12.05		6.33		0.77	
STOXX Europe Small 200	387		27.75		-0.86	14.14		1.55		3.66		11.01		7.17		0.67	
DAX	24961		1479.28		-0.48	17.10		2.01		3.19		11.31		5.93		0.82	
FTSE 100	10180		731.74		-0.01	13.99		2.27		3.37		14.65		7.19		0.69	
CAC 40	8138		508.65		0.32	16.24		2.01		3.26		12.20		6.25		0.78	
FTSE MIB	45026		3719.93		-1.24	12.31		1.60		5.01		12.31		8.26		0.59	
Nikkei 225	53584		2185.15		-0.63	24.43		2.50		1.60		10.14		4.08		1.15	
Hang Seng	26564		2187.31		-0.52	12.27		1.38		1438.83		9.66		8.23		0.58	

TABLE 2: EUROPEAN SECTORS

Index	Level	1yr Range	Forward												Composite		
			EPS	5yr Z-Score	EPS change 4 weeks (%)	PE Ratio	5yr Z-Score	PB Ratio	5yr Z-Score	Div Yield	5yr Z-Score	ROE	5yr Z-Score	Earnings Yield	5yr Z-Score	Upside to 12M Target Price*	vs. STOXX 5yr Z-Score
STOXX Europe	607	<div><div></div><div></div><div></div></div>	38.35	<div><div></div><div></div><div></div></div>	0.43	16.02	<div><div></div><div></div><div></div></div>	2.28	<div><div></div><div></div><div></div></div>	3.30	<div><div></div><div></div><div></div></div>	13.57	<div><div></div><div></div><div></div></div>	6.32	<div><div></div><div></div><div></div></div>	9%	1.00
STOXX 600 Consumer P&S	377	<div><div></div><div></div><div></div></div>	15.13	<div><div></div><div></div><div></div></div>	2.32	25.58	<div><div></div><div></div><div></div></div>	3.83	<div><div></div><div></div><div></div></div>	2.13	<div><div></div><div></div><div></div></div>	14.30	<div><div></div><div></div><div></div></div>	4.01	<div><div></div><div></div><div></div></div>	15%	1.61
STOXX 600 Energy	139	<div><div></div><div></div><div></div></div>	10.72	<div><div></div><div></div><div></div></div>	-1.75	13.13	<div><div></div><div></div><div></div></div>	1.56	<div><div></div><div></div><div></div></div>	4.56	<div><div></div><div></div><div></div></div>	11.81	<div><div></div><div></div><div></div></div>	7.72	<div><div></div><div></div><div></div></div>	7%	0.80
STOXX 600 Food, Bev and Tobacco	186	<div><div></div><div></div><div></div></div>	12.32	<div><div></div><div></div><div></div></div>	0.32	15.17	<div><div></div><div></div><div></div></div>	2.61	<div><div></div><div></div><div></div></div>	3.97	<div><div></div><div></div><div></div></div>	15.97	<div><div></div><div></div><div></div></div>	6.83	<div><div></div><div></div><div></div></div>	16%	0.97
STOXX 600 Personal Care	168	<div><div></div><div></div><div></div></div>	11.04	<div><div></div><div></div><div></div></div>	0.01	15.27	<div><div></div><div></div><div></div></div>	3.00	<div><div></div><div></div><div></div></div>	3.69	<div><div></div><div></div><div></div></div>	18.47	<div><div></div><div></div><div></div></div>	6.55	<div><div></div><div></div><div></div></div>	10%	1.00
STOXX 600 Chemicals	1112	<div><div></div><div></div><div></div></div>	61.09	<div><div></div><div></div><div></div></div>	-6.31	18.39	<div><div></div><div></div><div></div></div>	1.89	<div><div></div><div></div><div></div></div>	3.40	<div><div></div><div></div><div></div></div>	11.11	<div><div></div><div></div><div></div></div>	5.50	<div><div></div><div></div><div></div></div>	18%	1.11
STOXX 600 Utilities	512	<div><div></div><div></div><div></div></div>	33.25	<div><div></div><div></div><div></div></div>	0.36	15.48	<div><div></div><div></div><div></div></div>	1.81	<div><div></div><div></div><div></div></div>	4.26	<div><div></div><div></div><div></div></div>	11.33	<div><div></div><div></div><div></div></div>	6.50	<div><div></div><div></div><div></div></div>	2%	0.94
STOXX 600 Banks	361	<div><div></div><div></div><div></div></div>	34.47	<div><div></div><div></div><div></div></div>	0.94	10.67	<div><div></div><div></div><div></div></div>	1.39	<div><div></div><div></div><div></div></div>	4.84	<div><div></div><div></div><div></div></div>	12.65	<div><div></div><div></div><div></div></div>	9.54	<div><div></div><div></div><div></div></div>	2%	0.66
STOXX 600 Real Estate	130	<div><div></div><div></div><div></div></div>	7.65	<div><div></div><div></div><div></div></div>	0.23	17.04	<div><div></div><div></div><div></div></div>	0.86	<div><div></div><div></div><div></div></div>	4.34	<div><div></div><div></div><div></div></div>	8.01	<div><div></div><div></div><div></div></div>	5.91	<div><div></div><div></div><div></div></div>	14%	0.98
STOXX 600 Technology	837	<div><div></div><div></div><div></div></div>	33.78	<div><div></div><div></div><div></div></div>	0.71	27.26	<div><div></div><div></div><div></div></div>	5.48	<div><div></div><div></div><div></div></div>	1.13	<div><div></div><div></div><div></div></div>	20.44	<div><div></div><div></div><div></div></div>	3.76	<div><div></div><div></div><div></div></div>	17%	1.73
STOXX 600 Autom. & Parts	434	<div><div></div><div></div><div></div></div>	58.33	<div><div></div><div></div><div></div></div>	-1.11	8.70	<div><div></div><div></div><div></div></div>	0.61	<div><div></div><div></div><div></div></div>	4.19	<div><div></div><div></div><div></div></div>	6.32	<div><div></div><div></div><div></div></div>	11.81	<div><div></div><div></div><div></div></div>	16%	0.51
STOXX 600 Health Care	1185	<div><div></div><div></div><div></div></div>	67.66	<div><div></div><div></div><div></div></div>	0.81	17.68	<div><div></div><div></div><div></div></div>	3.80	<div><div></div><div></div><div></div></div>	2.62	<div><div></div><div></div><div></div></div>	18.20	<div><div></div><div></div><div></div></div>	5.71	<div><div></div><div></div><div></div></div>	7%	1.17
STOXX 600 Financial Services	916	<div><div></div><div></div><div></div></div>	63.78	<div><div></div><div></div><div></div></div>	1.67	14.53	<div><div></div><div></div><div></div></div>	1.70	<div><div></div><div></div><div></div></div>	2.73	<div><div></div><div></div><div></div></div>	10.20	<div><div></div><div></div><div></div></div>	6.96	<div><div></div><div></div><div></div></div>	11%	0.89
STOXX 600 Insurance	434	<div><div></div><div></div><div></div></div>	39.72	<div><div></div><div></div><div></div></div>	0.32	12.49	<div><div></div><div></div><div></div></div>	2.24	<div><div></div><div></div><div></div></div>	5.87	<div><div></div><div></div><div></div></div>	18.27	<div><div></div><div></div><div></div></div>	8.04	<div><div></div><div></div><div></div></div>	6%	0.80
STOXX 600 Telecom	256	<div><div></div><div></div><div></div></div>	17.98	<div><div></div><div></div><div></div></div>	2.82	14.18	<div><div></div><div></div><div></div></div>	1.53	<div><div></div><div></div><div></div></div>	4.31	<div><div></div><div></div><div></div></div>	3.60	<div><div></div><div></div><div></div></div>	7.03	<div><div></div><div></div><div></div></div>	16%	0.86
STOXX 600 Media	381	<div><div></div><div></div><div></div></div>	29.61	<div><div></div><div></div><div></div></div>	-0.63	13.07	<div><div></div><div></div><div></div></div>	1.96	<div><div></div><div></div><div></div></div>	3.44	<div><div></div><div></div><div></div></div>	12.96	<div><div></div><div></div><div></div></div>	7.77	<div><div></div><div></div><div></div></div>	23%	0.82
STOXX 600 Ind. Goods & Services	1143	<div><div></div><div></div><div></div></div>	47.32	<div><div></div><div></div><div></div></div>	-0.88	24.10	<div><div></div><div></div><div></div></div>	4.44	<div><div></div><div></div><div></div></div>	2.10	<div><div></div><div></div><div></div></div>	16.93	<div><div></div><div></div><div></div></div>	4.19	<div><div></div><div></div><div></div></div>	7%	1.56
STOXX 600 Consum & Materials	845	<div><div></div><div></div><div></div></div>	47.27	<div><div></div><div></div><div></div></div>	-0.87	18.13	<div><div></div><div></div><div></div></div>	2.52	<div><div></div><div></div><div></div></div>	2.56	<div><div></div><div></div><div></div></div>	13.71	<div><div></div><div></div><div></div></div>	5.53	<div><div></div><div></div><div></div></div>	10%	1.13
STOXX 600 Basic Resources	720	<div><div></div><div></div><div></div></div>	46.13	<div><div></div><div></div><div></div></div>	5.57	15.66	<div><div></div><div></div><div></div></div>	1.68	<div><div></div><div></div><div></div></div>	3.34	<div><div></div><div></div><div></div></div>	10.33	<div><div></div><div></div><div></div></div>	6.41	<div><div></div><div></div><div></div></div>	-1%	0.95
STOXX 600 Retail	487	<div><div></div><div></div><div></div></div>	28.83	<div><div></div><div></div><div></div></div>	1.15	17.04	<div><div></div><div></div><div></div></div>	3.12	<div><div></div><div></div><div></div></div>	3.42	<div><div></div><div></div><div></div></div>	13.11	<div><div></div><div></div><div></div></div>	5.32	<div><div></div><div></div><div></div></div>	10%	1.10
STOXX 600 Travel & Leisure	273	<div><div></div><div></div><div></div></div>	25.47	<div><div></div><div></div><div></div></div>	0.71	10.78	<div><div></div><div></div><div></div></div>	2.82	<div><div></div><div></div><div></div></div>	2.84	<div><div></div><div></div><div></div></div>	24.67	<div><div></div><div></div><div></div></div>	9.35	<div><div></div><div></div><div></div></div>	15%	0.74
*BBG consensus, NOT an official BNP																	

*BBG consensus, NOT an official BNP target price

TABLE 3: US SECTORS

Index	Level	1yr Range	Forward												Composite			
			EPS	5yr Z-Score	EPS change 4 weeks (%)	PE Ratio	5yr Z-Score	PB Ratio	5yr Z-Score	Div Yield	5yr Z-Score	ROE	5yr Z-Score	Earnings Yield	5yr Z-Score	Potential Upside to 12M Target Price*	vs. S&P 500	5yr Z-Score
S&P 500	6940	<div><div></div><div></div><div></div></div>	300.40	<div><div></div><div></div><div></div></div>	-0.01	23.10	<div><div></div><div></div><div></div></div>	4.97	<div><div></div><div></div><div></div></div>	1.20	<div><div></div><div></div><div></div></div>	19.92	<div><div></div><div></div><div></div></div>	4.33	<div><div></div><div></div><div></div></div>	16%	1.00	<div><div></div><div></div><div></div></div>
S&P 500 Consumer Discretionary	1976	<div><div></div><div></div><div></div></div>	70.32	<div><div></div><div></div><div></div></div>	0.13	27.87	<div><div></div><div></div><div></div></div>	7.95	<div><div></div><div></div><div></div></div>	0.64	<div><div></div><div></div><div></div></div>	24.64	<div><div></div><div></div><div></div></div>	3.59	<div><div></div><div></div><div></div></div>	11%	1.28	<div><div></div><div></div><div></div></div>
S&P 500 Consumer Staples	914	<div><div></div><div></div><div></div></div>	40.72	<div><div></div><div></div><div></div></div>	-0.11	22.45	<div><div></div><div></div><div></div></div>	6.40	<div><div></div><div></div><div></div></div>	2.52	<div><div></div><div></div><div></div></div>	27.88	<div><div></div><div></div><div></div></div>	4.45	<div><div></div><div></div><div></div></div>	8%	1.03	<div><div></div><div></div><div></div></div>
S&P 500 Energy	734	<div><div></div><div></div><div></div></div>	40.29	<div><div></div><div></div><div></div></div>	-4.11	18.22	<div><div></div><div></div><div></div></div>	2.01	<div><div></div><div></div><div></div></div>	3.30	<div><div></div><div></div><div></div></div>	11.00	<div><div></div><div></div><div></div></div>	5.49	<div><div></div><div></div><div></div></div>	8%	0.72	<div><div></div><div></div><div></div></div>
S&P 500 Financials	904	<div><div></div><div></div><div></div></div>	54.16	<div><div></div><div></div><div></div></div>	0.85	16.70	<div><div></div><div></div><div></div></div>	2.32	<div><div></div><div></div><div></div></div>	1.71	<div><div></div><div></div><div></div></div>	13.55	<div><div></div><div></div><div></div></div>	5.99	<div><div></div><div></div><div></div></div>	13%	0.68	<div><div></div><div></div><div></div></div>
S&P 500 Health Care	1015	<div><div></div><div></div><div></div></div>	92.78	<div><div></div><div></div><div></div></div>	-1.70	13.56	<div><div></div><div></div><div></div></div>	4.64	<div><div></div><div></div><div></div></div>	1.73	<div><div></div><div></div><div></div></div>	19.76	<div><div></div><div></div><div></div></div>	5.11	<div><div></div><div></div><div></div></div>	11%	0.86	<div><div></div><div></div><div></div></div>
S&P 500 Industrials	1413	<div><div></div><div></div><div></div></div>	52.81	<div><div></div><div></div><div></div></div>	-0.01	26.75	<div><div></div><div></div><div></div></div>	6.69	<div><div></div><div></div><div></div></div>	1.24	<div><div></div><div></div><div></div></div>	23.87	<div><div></div><div></div><div></div></div>	3.74	<div><div></div><div></div><div></div></div>	7%	1.19	<div><div></div><div></div><div></div></div>
S&P 500 Information Technology	5651	<div><div></div><div></div><div></div></div>	206.60	<div><div></div><div></div><div></div></div>	0.47	27.35	<div><div></div><div></div><div></div></div>	10.78	<div><div></div><div></div><div></div></div>	0.54	<div><div></div><div></div><div></div></div>	35.73	<div><div></div><div></div><div></div></div>	3.66	<div><div></div><div></div><div></div></div>	25%	1.36	<div><div></div><div></div><div></div></div>
S&P 500 Materials	616	<div><div></div><div></div><div></div></div>	28.86	<div><div></div><div></div><div></div></div>	0.74	21.34	<div><div></div><div></div><div></div></div>	2.91	<div><div></div><div></div><div></div></div>	1.70	<div><div></div><div></div><div></div></div>	13.21	<div><div></div><div></div><div></div></div>	4.63	<div><div></div><div></div><div></div></div>	19%	0.86	<div><div></div><div></div><div></div></div>
S&P 500 Real Estate	267	<div><div></div><div></div><div></div></div>	7.10	<div><div></div><div></div><div></div></div>	-0.05	37.53	<div><div></div><div></div><div></div></div>	3.10	<div><div></div><div></div><div></div></div>	3.40	<div><div></div><div></div><div></div></div>	8.10	<div><div></div><div></div><div></div></div>	2.66	<div><div></div><div></div><div></div></div>	11%	1.45	<div><div></div><div></div><div></div></div>
S&P 500 Communication Services	454	<div><div></div><div></div><div></div></div>	20.61	<div><div></div><div></div><div></div></div>	0.22	22.04	<div><div></div><div></div><div></div></div>	4.86	<div><div></div><div></div><div></div></div>	0.73	<div><div></div><div></div><div></div></div>	20.50	<div><div></div><div></div><div></div></div>	4.54	<div><div></div><div></div><div></div></div>	16%	0.96	<div><div></div><div></div><div></div></div>
S&P 500 Utilities	441	<div><div></div><div></div><div></div></div>	24.31	<div><div></div><div></div><div></div></div>	0.58	18.14	<div><div></div><div></div><div></div></div>	2.27	<div><div></div><div></div><div></div></div>	2.90	<div><div></div><div></div><div></div></div>	12.43	<div><div></div><div></div><div></div></div>	5.51	<div><div></div><div></div><div></div></div>	13%	0.73	<div><div></div><div></div><div></div></div>
*BBG consensus, NOT an official BNP target price																		

Our key convictions at a glance

Relative view*		USA	Europe	Japan	Emerging Markets
		Neutral	Neutral	Overweight	Overweight
What we (especially) like		Energy Infrastructure	European banks SMID caps UK	Select foreign (US) exposed larger caps, including AI beneficiaries Domestically exposed names benefiting from wage gains or GDP growth (including SMIDS) Financials	China, India, Singapore
What we don't (really) like		Certain expensive US mega caps with limited exposure to AI related growth or potentially losing business to AI (cf. certain SaaS)	Exporters		Thailand
Preferred themes & trades	Regional basis	Buybacks & Quality Dividend growth	Strategic Autonomy (with selectivity)	Governance Reform achievers	Chinese tech Chinese high dividend plays (banks, telecom)
	Global Basis	Precious and energy transition metal miners Innovation in Healthcare Utilities			

* Relative view: against your benchmark

Economic, FX forecast tables

The gap between the US and EU is narrowing

BNP Paribas Forecasts

GDP Growth %	2025	2026	2026- Bloomberg Consensus	2027	2027-Bloomberg Consensus
United States	1.9	1.9	2.0	1.8	2.0
Japan	1.4	0.7	0.7	0.8	0.8
United Kingdom	1.4	1.1	1.1	1.3	1.4
Switzerland	1.4	1.0	1.2	1.6	1.5
Eurozone	1.5	1.6	1.2	1.6	1.4
Germany	0.3	1.4	1.0	1.5	1.5
France	0.8	1.1	0.9	1.3	1.2
Italy	0.6	1.0	0.7	0.9	0.8
Emerging					
China	5.0	4.7	4.5	4.5	4.3
India**	6.8	6.5	7.2	6.6	6.5
Brazil	2.2	1.8	1.7	1.4	1.9

** Fiscal year

Source : BNP Paribas, Bloomberg - 23/12/2025

Less upside for US inflation

BNP Paribas Forecasts

CPI Inflation %	2025	2026	2026- Bloomberg Consensus	2027	2027- Bloomberg Consensus
United States	2.8	3.1	2.8	2.6	2.4
Japan	3.2	2.1	1.9	2.6	2.0
United Kingdom	3.4	2.6	2.5	2.2	2.1
Switzerland	0.2	0.4	0.4	0.6	0.7
Eurozone	2.1	1.9	1.8	2.1	2.0
Germany	2.2	1.6	2.0	2.3	2.1
France	1.0	1.1	1.3	1.5	1.6
Italy	1.7	1.5	1.4	1.9	1.7
Emerging					
China	-0.1	0.9	0.7	1.0	1.0
India*	2.4	4.1	2.1	4.3	4.0
Brazil	5.0	3.8	4.0	3.8	3.9

* Fiscal year

Source : BNP Paribas, Bloomberg - 23/12/2025

FX FORECASTS EUR

Country		Spot 22/12/2025	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
United States	EUR / USD	1.18	Neutral	1.16	Negative	1.24
United Kingdom	EUR / GBP	0.87	Neutral	0.87	Neutral	0.87
Japan	EUR / JPY	184.66	Positive	1.76	Neutral	1.84
Switzerland	EUR / CHF	0.93	Neutral	0.94	Neutral	0.94
Australia	EUR / AUD	1.77	Neutral	1.76	Negative	1.82
New Zealand	EUR / NZD	2.03	Positive	1.93	Neutral	2.07
Canada	EUR / CAD	1.62	Neutral	1.60	Negative	1.67
Sweden	EUR / SEK	10.85	Neutral	11.00	Neutral	10.70
Norway	EUR / NOK	11.89	Positive	11.60	Positive	11.30
Asia						
China	EUR / CNY	8.28	Neutral	8.24	Negative	8.80
India	EUR / INR	105.46	Positive	102.08	Negative	109.12
Latam						
Brazil	EUR / BRL	6.54	Positive	6.26	Negative	7.07
Mexico	EUR / MXN	21.15	Neutral	21.34	Negative	22.32

Source: BNP Paribas, LSEG

FX FORECASTS USD

Country		Spot 22/12/2025	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
Eurozone	EUR / USD	1.18	Neutral	1.16	Positive	1.24
United Kingdom	GBP / USD	1.35	Neutral	1.33	Positive	1.43
Japan	USD / JPY	156.98	Positive	152.00	Positive	148.00
Switzerland	USD / CHF	0.79	Negative	0.81	Positive	0.76
Australia	AUD / USD	0.67	Neutral	0.66	Positive	0.68
New Zealand	NZD / USD	0.58	Positive	0.60	Positive	0.60
Canada	USD / CAD	1.37	Neutral	1.38	Neutral	1.35
Asia						
China	USD / CNY	7.04	Neutral	7.10	Neutral	7.10
India	USD / INR	89.65	Neutral	88.00	Neutral	88.00
Latam						
Brazil	USD / BRL	5.56	Positive	5.40	Negative	5.70
Mexico	USD / MXN	17.98	Negative	18.40	Neutral	18.00
EMEA						
South Africa	USD / ZAR	16.71	Negative	17.25	Neutral	17.00
USD Index	DX	98.29	Neutral	98.95	Negative	93.34

Source: BNP Paribas, LSEG

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