JUNE 2026

The Middle East deal is in reach – Key opinion changes

Key Messages

1. **Middle East Deal Reached**: The US and Iran have reached a peace deal, set for signing in Switzerland, which is expected to boost risk appetite and reduce geopolitical tensions
2. **Central Banks and Forex**: The Fed and the ECB are expected to maintain a data-dependent approach, with no further rate hikes anticipated in 2026. EUR/USD target is still 1.20 over 12 months.
3. **Oil Price Outlook**: Brent crude prices are expected to stabilize in the USD 80–90 range in the short term, supporting the assumption of peaking inflation in 2026 and a decline in 2027. The long-term outlook remains negative with USD 70–80 target trading range for Brent price.
4. **Upgrade high yield bonds from Negative to Neutral:** The outlook has improved after a deal to end the conflict was announced, significantly reducing recession concerns. However, the expected return remains limited as risk premiums stay near historical lows.
5. **Equities Repositioning Amid Geopolitical Shifts:** We upgrade Japan from Neutral to Overweight. We upgrade South and South-East Asia from Underweight to Neutral while remaining Neutral on Emerging Markets. European equities are upgraded from Underweight to Neutral. **Sector wise**: we upgrade European Travel & Leisure, Automobiles, and Media to Neutral. We upgrade European Banks to Overweight and US Financials from Underweight to Neutral.

The deal and the consequences on the macro side

The headline development over the weekend was the announcement that the United States and Iran have reached a peace agreement, slated for signing in Switzerland on Friday. Although further negotiations will be needed to resolve Iran's nuclear program, we believe that a signed deal could trigger a more sustained increase in risk appetite. In addition, the successful IPO of SpaceX is likely to be a supporting factor. Accordingly, we have made a few adjustments to our recommendations to reflect these developments. The principal driver of risk appetite remains the outlook for oil and energy prices. We have repeatedly highlighted our expectation of a de-escalation, with the agreement nudging oil prices back toward roughly USD 80 per barrel. Brent crude is already trading close to USD 83. As discussed in the next section, the path ahead may be uneven, but we anticipate that oil prices will stay within the USD 80–90 range over the coming months. This price band should underpin our assumption of an inflation peak later this year, followed by a gradual decline beginning in 2027. Since our macroeconomic outlook was already built on a de-escalation premise, we do not foresee any major revisions in that respect. Our view on central banks policies and the U.S. dollar remains unchanged. We continue to expect that both the Federal Reserve and the European Central Bank will adopt a data-dependent approach, keeping rates on hold for the remainder of the year. Market expectations now price only 15 basis points of additional Fed tightening by the end of 2026 and a cumulative 30 basis points of hiking from the ECB by the end of 2027. The U.S. dollar, which initially benefited from its safe-haven status, has lost some of its momentum as Brent crude prices have receded. We keep our 12-month EUR/USD target at USD 1.20, reflecting our view that capital flows will gradually tilt away from the dollar. Moreover, we believe that U.S. tail-risk factors—namely expanding fiscal deficits, a growing debt burden fuelled by higher defence spending, and the likelihood of pre-election stimulus—are still insufficiently priced by the market.

Outlook for oil prices: Brent price corrected from highs around USD 120 early May to USD 83 currently. Oil prices already declined in recent weeks due the market anticipating a deal on Hormuz reopening. And now that the signing of a US/Iran deal is announced, the Brent price is further down by 5% today. This confirms our previously communicated expectation that the Brent price could pull back towards USD 80 once a deal is announced and this justifies our negative view on oil price since early May. However, markets should not be too optimistic about a quick return to normal in the Strait of Hormuz and global supply/demand balance in oil markets, as it will take time to restore production, flows and inventories.

- Iran has 1 month to remove all mines.
- It is not sure that tanker transports through the Strait will return to pre-war levels as shipping companies (and their insurers) could prefer other routes.
- There is still a risk of renewed disruption in the Strait, as Iran has now discovered this weapon as negotiation power and US/Israel-Iran tensions could flare up regularly.
- It takes at least 1 or 2 months to restart halted oil production and transport facilities.
- It takes almost 1 month to transport oil from the Persian Gulf to East-Asia.

In view of these delays in normalization of supplies, it is still likely that some countries will run out of inventories and that supply/demand balance will remain very tight over the coming months. In that context we expect the Brent price to trade between USD 80 and 90 for the remainder of 2026, which corresponds with a neutral view in the short term. On a 12 months horizon, we maintain our negative view with USD 70 – 80 target trading range for Brent price, in view of:

- A lot of oil producing countries outside the Persian Gulf are increasing / maximizing their production.
- The UAE leaving the OPEC (and risk of other countries leaving) implies less discipline / power from OPEC going forward.
- Remaining sanctions will probably be lifted (on Iran, like for Venezuela, and ultimately also for Russia).
- Some structural demand destruction (acceleration of energy transition, more EV's...).

A re-opening of Hormuz could also have some short-term correction effect on other commodities that benefited from supply disruption in the Persian Gulf, such as aluminium, helium, urea, ammonia... But the picture remains positive for industrial metals in general, as they will continue to benefit from the acceleration in energy transition and infrastructure expansion (e.g. for AI-datacenters), combined with limited capacity addition over next years. As precious metals such as gold and silver had suffered from a stronger USD and rising bond yields, the re-opening of Hormuz could ease upward pressure on bond yields and hence trigger some recovery in precious metals prices.

Upgrade high yield bonds from Negative to Neutral

After the beginning of the Iran strikes, we decided to reduce the risk, and we downgraded high yield bonds to Negative given the rise in probabilities of a recession scenario. The rising pressure on the involved parties to end the war and in particular the deal announced over the weekend reduces a lot the recession risk. We thus upgrade corporate high yields back to Neutral. We do not think that those bonds will outperform other bonds as the risk premium (high yield corporate spreads) remains close to historical lows. We will need to monitor closely how the deal is implemented and to what extend the risks related to inflation and potential rate hikes falls further.

Equities Repositioning Amid Geopolitical Shifts

The most recent weeks almost felt like a market edition of the famous play "Waiting for Godot". Unlike with the play, where Godot never arrives, an agreement to end the hostilities in the Middle East and unblock the vital chokepoint appears to have finally been reached. Albeit some uncertainties remain, we view this development as a net positive for equities as it removes a key tail risk. With investor sentiment being remarkably constructive, we think this should unlock further upside potential for equities in the weeks ahead as the major drivers, i.e. strong AI spending and a robust US economy, should remain on top of investors' minds. As some crucial details are still missing, we nonetheless remain neutral on equities in general.

Main regions: Within the equity allocation, we do adjust some ratings though. We upgrade Japan from Neutral to Overweight. We upgrade South and South-East Asia from Underweight to Neutral while remaining Neutral on Emerging Markets. European equities are upgraded from Underweight to Neutral. This should not be mistaken as a fundamental change in our sceptic view on Europe, but rather the acknowledgement that the index should experience a meaningful relief rally. Last but not least, our view on US equities remains unchanged. More details will be provided in the upcoming equity focus.

Equity Sectors: We recently downgraded the Oil & Gas sector - particularly the Oil Majors – to Underweight, as the Hormuz blockade was getting unsustainable for the US administration. We expected a gradual reopening of the Strait, allowing for a more balanced supply/demand on the oil & gas market and shrinking risk premia. At the same time, the crisis has reinforced the strategic imperative for fossil fuel-dependent economies to accelerate energy independence. So that contrary to Oil Majors, we expect renewable energy as well as energy infrastructure, equipment and services to do well in the current world. Idem for those critical materials needed in energy transition and in high-end aerospace and defence.

As the gradual reopening of the Strait of Hormuz materializes, globally, cyclical sectors sensitive to oil price fluctuations and broader economic momentum should do well. Our Overweight position on Industrials remains unchanged, as the sector continues to benefit from its close alignment with infrastructure development—a structural theme we believe will maintain its positive trajectory. Thanks to lower energy prices, European consumption – particularly the discretionary part of it – now looks much less at risk (whereas the US consumption has been very resilient). Therefore, next to Retail and Consumer products on which we are Neutral, we now upgrade European Travel & Leisure, Automobiles, and Media from Underweight to Neutral. We even expect the high-end segment of luxury to outperform in the short term: Asian consumers – particularly travellers - are poised to increase spending, while the persistent K-shaped recovery in the US continues to underpin demand for premium goods and services.

With inflation likely to stray controlled, and Western recession risks diminishing, we view the Banking sector as increasingly compelling due to attractive valuations, M&A opportunities, and early adoption benefits from AI-driven efficiency gains. We upgrade European banks to Overweight (from Neutral) and US Financials from Underweight to Neutral. The good momentum on Investment banks is likely to go ahead thanks to large IPOs coming to the market, active trading and corporate activity in general.

BNP Paribas Forecasts			
GDP Growth %	2025	2026	2027
United States	2.1	2.4	2.3
Japan	1.1	0.5	0.7
UK	1.4	0.7	1.2
Switzerland	1.4	0.8	1.3
Eurozone	**1.5**	**0.6**	**1.6**
Germany	0.3	0.8	1.1
France	0.9	0.8	1.1
Italy	0.7	0.8	0.8
Emerging			
China	5.0	4.6	4.5
India*	7.7	6.6	6.8
Brazil	2.3	2.3	1.4

* Fiscal year

Source : BNP Paribas - 10.06.2026

BNP Paribas Forecasts			
CPI Inflation %	2025	2026	2027
United States	2.7	3.7	2.8
Japan	3.1	2.3	3.1
UK	3.4	3.4	3.2
Switzerland	0.2	0.5	0.5
Eurozone	**2.1**	**3.0**	**3.3**
Germany	2.2	3.2	3.5
France	1.0	2.2	1.6
Italy	1.7	3.1	3.7
Emerging			
China	0.0	1.3	1.4
India*	2.1	5.1	4.2
Brazil	5.0	4.7	5.1

* Fiscal year

Source : BNP Paribas - 10.06.2026

	Country	Spot 14/06/2026		Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1.16	1.14	1.20
	United Kingdom	EUR / GBP	0.86	0.87	0.87
	Switzerland	EUR / CHF	0.92	0.92	0.92
	Japan	EUR / JPY	185	180	186
	Sweden	EUR / SEK	10.90	10.80	10.60
	Norway	EUR / NOK	11.00	10.80	10.75
Against dollar	Japan	USD / JPY	160	158	155
	Canada	USD / CAD	1.40	1.38	1.35
	Australia	AUD / USD	0.71	0.73	0.71
	New Zealand	NZD / USD	0.58	0.60	0.60
	Brazil	USD / BRL	5.08	5.30	5
	India	USD / INR	95.11	95	95
	China	USD / CNY	6.76	6.80	6.80

Source: BNP Paribas, Refinitiv Datastream. As at 15 June 2026

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