

# Investment Strategy Focus

## Heavy Assets in Vogue

### Summary

- The United States and Israel launched joint military strikes against Iran over the weekend.** Limited market reactions at this stage. We upgrade Oil to Neutral from Negative with a short-term target of USD 80 for Brent. However, we keep our mid-term (12-month) target range of USD 60–70 given underlying overcapacity.
- Supreme Court rules US tariffs illegal:** as expected, Trump’s executive order tariffs were struck down. In response, Trump is resorting to other legislation including Section 122 and 232 to reimpose trade tariffs on a global and sector basis. A new 10% global tariff has been implemented, which may rise to 15%.
- Blue Owl reignites US private credit fears:** private credit manager Blue Owl has closed its ODBC II fund to redemptions and has begun selling assets to return investor capital. US direct lending concerns have increased as US private credit exposure to the software sector may be as high as 20%. Thus far, little spillover to other markets, but we watch for signs of contagion.
- The HALO (Heavy Assets, Low Obsolescence) effect:** the prevailing theme in the stock market at present is the rotation away from digital assets back towards physical assets. Investors have begun to favour companies and industries where the risk of AI disruption is low to none. Positive on Mining, Building & Construction.
- Expecting 1 Fed rate cut in September:** US core inflation remains well above 2%, while non-farm payroll trends have been stronger than expected of late. Emerging optimism over US growth and improved CEO confidence suggest that the Fed will cut only modestly. We expect 1 further Fed rate cut this year, giving a terminal rate of 3.5%.

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**GLOBAL MINING +22% THIS YEAR ALONE, +101% OVER 2025-26**



Source: BNP Paribas, Bloomberg

Edmund Shing, PhD

Global CIO

BNP Paribas Wealth Management



## Macro and Market Views

	<b>Macro</b>		<ul style="list-style-type: none"> <li>- The US job market is more resilient than expected and US inflation continues to be sticky. The Supreme Court's ruling on tariff is expected to result in a lower average effective rate. Fiscal measures in the context of the U.S. mid term elections could give rise to an overheating scenario.</li> <li>- The economic recovery in Germany and across Europe is accelerating.</li> <li>- Renewed geopolitical tensions in Iran raised concerns about energy prices. Higher energy costs are expected to affect US growth less severely compared with other economies—particularly the eurozone—but the oil-supply disruption should be temporary.</li> </ul>
	<b>Bonds</b>	=	<ul style="list-style-type: none"> <li>- Positive on UK gilts (12-month yield target is 4.3%).</li> <li>- Neutral on eurozone sovereigns and US Treasuries; prefer shorter-term (2-5 year) maturities.</li> <li>- We change our outlook for the US Fed and now expect only one more 25bp rate cut in September leading to a terminal rate of 3.50%, ECB to maintain deposit rate at 2% to end-2026.</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>
	<b>Credit</b>	+	<ul style="list-style-type: none"> <li>- We prefer the EUR and GBP IG corporate bonds (Positive view) to USD IG bonds (Neutral view) given the supply dynamics and the level of spreads. We focus on quality.</li> </ul>
	<b>Equities</b>	+	<ul style="list-style-type: none"> <li>- Positive on Equities: the overall backdrop still supports equities, as global growth is solid while financial conditions remain supportive.</li> <li>- Favour UK, Japan, China, India, Brazil and Mexico.</li> <li>- Neutral on the eurozone and the US.</li> <li>- Positive on Health Care, Industrials and Mining.</li> <li>- In the EU, we are Positive on Banks, Utilities.</li> <li>- Neutral on US Consumer Discretionary, Technology.</li> </ul>
	<b>Real Estate</b>	=	<ul style="list-style-type: none"> <li>- INREV European private real estate funds continue to see steady growth in net asset values, delivering on average a 4.4% return to investors for 2025.</li> <li>- Industrial/logistics exposure preferred for healthy yields, higher expected rental growth on robust underlying demand growth.</li> <li>- Commercial real estate is increasingly supported by lower interest rates as both short- and long-term rates decline modestly.</li> </ul>
	<b>Commodities</b>	+/+ /=	<ul style="list-style-type: none"> <li>- Precious metals: We remain Positive on precious metals and increase our target price for gold to USD 5500 per ounce (from USD 5000) and for silver (Neutral) to USD 90 per ounce (from USD 80).</li> <li>- Positive view on strategic industrial metals, such as copper, aluminium and tin.</li> <li>- We tactically turn Neutral with a short-term target of USD 80 in view of current military conflict disrupting oil supply through the Strait of Hormuz. We however keep our 12-month target range of USD 60-70, as we think the oil price will pull back after this military conflict, given high overproduction.</li> </ul>
	<b>Alternative UCITS/ Private Assets</b>		<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> <li>- Positive on infrastructure, given medium-term structural growth boosted by government spending and emerging market demand.</li> </ul>
	<b>FX</b>		<ul style="list-style-type: none"> <li>- Geopolitical tensions, Supreme Court striking down tariffs combined with the return of capital flows from the US to Europe/Middle East/Asia could lead to a weaker US dollar.</li> <li>- EUR/USD 12-month target USD 1.24 (value of one EUR), USD/JPY target JPY 155 (value of one USD).</li> <li>- We change our 3- and 12-month USD/CNY targets to 6.80 (value of one USD).</li> </ul>



## Monthly Focus: Rotation into HALO - Heavy Assets, Low Obsolescence

### AI disruption fears drive stock dispersion

The prevailing theme in the stock market at present is the rotation away from digital assets back towards physical assets. With investors increasingly worried about which companies and industries are at risk from disruption from Artificial Intelligence, they have instead begun to favour companies and industries where the risk of AI disruption is low to none.

Sectors such as software and even logistics have suffered from dramatic falls in stock prices following the launch of Anthropic’s Claude Code AI coding agent, which can allow much faster development of custom software applications even potentially by non-programmers. This potentially threatens the recurrent revenue streams of Software As A System (SAAS) companies. Cybersecurity software companies have been the latest technology subsector to be caught up in these “AI disruption” fears with the recent launch of Claude Code Security, which is aimed at helping programmers detect potential security flaws in their software code during the development phase.

Since November 2025, the US software sector has fallen 30% on the back of this perceived AI threat to software companies, with even Microsoft falling 23%. At a broader level, the sector rotation away from former US technology market leaders and towards asset-heavy industries such as Metals & Mining and Energy has accelerated since November. The US technology sector has fallen 8%, while in contrast, the Global Energy sector has gained 23% in USD and Global Mining stocks have risen 44% since November.

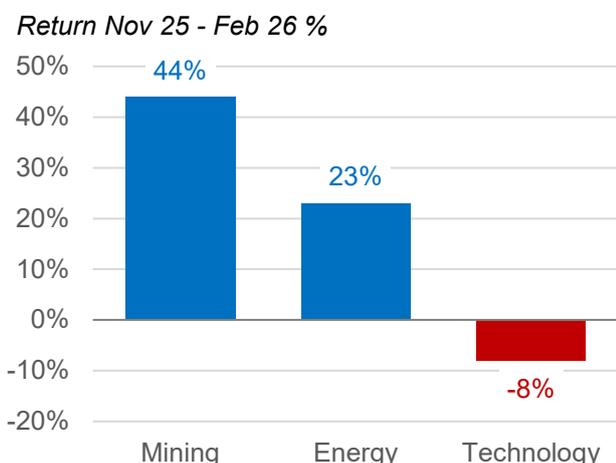
### European Building & Construction remains a winner

On this same HALO rotation theme, European Building & Construction stocks continue to break out to new all-time highs. Not only are building companies benefitting from a recovery in European residential house prices, but also from exposure to the growth in European defence and infrastructure spending plans led by Germany. A similar trend has been observed in the US in the Materials sector, heavy not only in Metals & Mining but also in Building Material stocks.

Within Financials, the HALO trend has favoured Banks which should benefit from AI-linked productivity gains to drive down costs. In contrast, the Insurance sector has been increasingly perceived by investors as vulnerable to AI disruption. AI agents can increasingly compare insurance policies and prices and recommend the best combination of policy benefits and low prices to consumers, thus increasing transparency of property & casualty insurance pricing and squeezing insurance company profit margins.

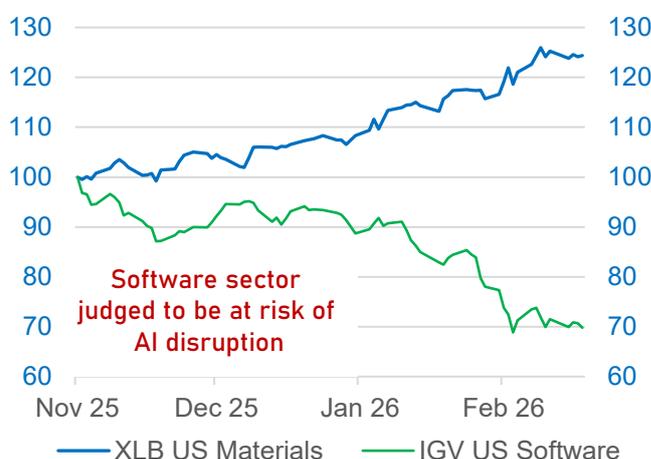
Ultimately, factors such as proprietary databases will protect knowledge-based companies from the risk of AI disruption. This suggests that some companies that are currently being derated due to perceived risks from AI could offer excellent entry points for the long term as their long-term “economic moats” may be more resilient to AI disruption than the market is pricing.

**CLEAR ROTATION TO RESOURCE SECTORS SINCE NOVEMBER 2025**



Source: Bloomberg, BNP Paribas

**2026 HAS BEEN BRUTAL FOR SOFTWARE COMPANIES**



Source: Bloomberg, BNP Paribas

# Military strikes against Iran – first thoughts

## US-Israel military strikes against Iran and reprisals

The United States and Israel launched joint military strikes against Iran over the weekend. The targets were political leadership, missile capabilities, and naval facilities. Iran’s retaliation was faster and broader than last year’s strikes. With much of the Iranian leadership apparently eliminated, it is not yet clear who will assume leadership or what their priorities will be. It is also uncertain how, or whether, a regime change could be achieved and what the implications might be. Oil prices rose sharply, briefly reaching USD85/barrel. The decline in equity markets is limited at this stage. Safe-haven assets such as gold, government bonds and the Swiss franc were up, with US 10-year yields remaining around 4%.

## The impact for oil prices and the economy

During this escalatory phase, we expect a sizeable upward impact on oil and gas prices as geopolitical risks increase. Particularly when Iran is involved, there is the threat of Iranian retaliation by blocking the entrance of the Persian Gulf (the Strait of Hormuz), through which more than 20% of global oil and LNG supply passes. Currently Iran is not actively blocking the Strait of Hormuz, but *de facto* it is temporarily closed as oil tankers (or their insurance companies) don’t want risk navigating through the Straits.

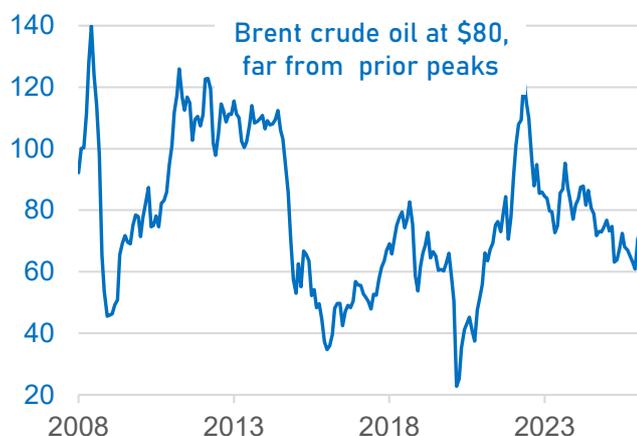
**In our base-case scenario**, we see short-lived military action (a few days or weeks), a fast resolution without regime change and no prolonged energy disruption. Under this scenario, military operations and political uncertainty remain elevated in the short term, but shipping lanes and energy exports stay largely operational. Tensions ease and the market risk premium reduces soon, with the oil price returning to its recent USD 60–70 trading range. Equity markets soon rebound.

**Scenario 2:** Escalating or long-lasting military conflict with regular energy and logistical disruption (negative scenario). The oil price could rise further, potentially above USD 100, inflation would then increase, with a higher risk of economic recession and of a significant equity market correction.

**Scenario 3:** Change in Iranian regime, co-operating with the West, signing of a nuclear deal and the lifting of export sanctions (constructive scenario). We assign a low probability to this third scenario.

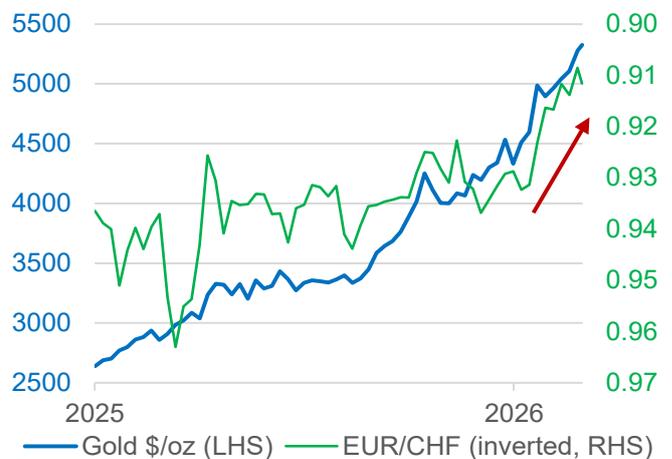
Taking into account these different possible scenarios, with the risk of a sustained disruption in the Strait of Hormuz, **we upgrade our view on Oil to Neutral from Negative with a short-term target of USD 80 for Brent. However, we keep our mid-term (12-month) target range of USD 60–70**, as once the Iran-related disruption risk eases the market will refocus on underlying overcapacity in the global oil market.

**GLOBAL OIL PRICE HAS BOUNCED NEARLY USD 20 FROM END-2025 LOWS**



Source: Bloomberg, BNP Paribas

**SAFE HAVEN ASSETS (GOLD, SWISS FRANC) IN DEMAND**



Source: Bloomberg, BNP Paribas

### Epic Fury, Little Impact so far

Both the extent of the operation “Epic Fury” and the response by Iran go beyond what markets have expected up to now. We now face the risk of an extended period of higher oil prices, potentially rising above USD 100 in the worst case. Unless this risk materialises, we do not expect the current episode to have a long-lasting negative impact on the economy and business profits. Historically, such episodes have in the main failed to derail the economy, resulting in only a temporary market correction. Looking at all major Oil/Middle East-related geopolitical risk events since 1990, we find that the S&P 500 has lost only 5% on average, and that it took the market less than 41 days to recover those losses (Table 1).

**At this point in time, we do not think this episode will be any different and would rather see any extended market weakness as a long-term buying opportunity.** Were crude oil to trade at much higher prices for an extended period, derailing global economic growth, we would reassess our Positive stance on equities. Hence, we will closely monitor the situation in the Strait of Hormuz very closely, as the fate of the equity market will be determined by the oil price in the coming weeks.

### Equity sectors – short- vs long-term impacts

We are seeing the usual suspects benefitting from the current situation as both energy and defensive names are trading higher. On the other hand, consumer-related stocks, especially discretionary sectors, like travel and leisure, are unsurprisingly facing selling pressure, as are energy-intensive companies and logistic networks.

Whether or not the situation has a longer lasting impact on those sectors is too early to tell. This will be subject to the extent of the current oil spike, both in terms of magnitude and duration. Our preferred hedges against a downside scenario are defence and oil service companies. The former are enjoying structural tailwinds which are being reinforced by the current situation, as it should encourage higher defence spending irrespective of the outcome of the US/Israel operation in Iran. The Oil Services subsector should benefit if oil infrastructure is heavily impacted, which might strain oil majors. We think that increasing investments to reduce dependence from the chokepoint Hormuz should provide some longer lasting support to this segment.

**TABLE 1: HISTORY SUGGESTS THAT THE IMPACT FROM GEOPOLITICAL CRISES ON THE EQUITY MARKET IS LIMITED**

Events	Date	S&P 500			
		Move at T	max Drawdown (MDD)	Days until MDD	Days until recovery
US attacks on Iran	28.02.2026	?	?	?	?
US attack on Iranian Nuclear sites	22.06.2025	0,96%	0,00%	1	1
Russian Invasion in Ukraine	24.02.2022	1,55%	-2,53%	1	1
Iranian General Killed In Airstrike	03.01.2020	-0,70%	-1,34%	1	5
Saudi Aramco Drone Strike	14.09.2019	-0,30%	-4,00%	19	41
North Korea Missile Crisis	28.07.2017	-0,10%	-1,50%	14	36
Bombing of Syria	07.04.2017	-0,10%	-1,20%	7	18
Boston Marathon Bombing	15.04.2013	-2,30%	-3,00%	4	15
London Subway Bombing	05.07.2005	0,90%	0,00%	1	4
Madrid Bombing	11.03.2004	-1,50%	-2,90%	14	20
U.S. Terrorist Attacks	11.09.2001	-4,90%	-11,60%	11	31
Iraq's Invasion of Kuwait	02.08.1990	-1,10%	-16,90%	71	189
Reagan Shooting	30.03.1981	-0,30%	-0,30%	1	2
Yom Kippur War	06.10.1973	0,30%	-0,60%	5	6
Munich Olympics	05.09.1972	-0,30%	-4,30%	42	57
Tet Offensive	30.01.1968	-0,50%	-6,00%	36	65
Six-Day War	05.06.1967	-1,50%	-1,50%	1	2
Gulf of Tonkin Incident	02.08.1964	-0,20%	-2,20%	25	41
Kennedy Assassination	22.11.1963	-2,80%	-2,80%	1	1
Cuban Missile Crisis	16.10.1962	-0,30%	-6,60%	8	18
Suez Crisis	29.10.1956	0,30%	-1,50%	3	4
Hungarian Uprising	23.10.1956	-0,20%	-0,80%	3	4
N. Korean Invades S. Korea	25.06.1950	-5,40%	-12,90%	23	82
Pearl Harbor Attack	07.12.1941	-3,80%	-19,80%	143	307
<b>Average</b>		<b>-0,97%</b>	<b>-4,53%</b>	<b>18,91</b>	<b>41,30</b>
<b>Average (Oil / Middle East related events since 1990)*</b>		<b>-0,66%</b>	<b>-5,37%</b>	<b>15,86</b>	<b>40,86</b>

Source: BNP Paribas, Bloomberg

# Trump Tariffs struck down by the Supreme Court

Guy Ertz, PhD

## Supreme Court decision and the outlook for tariffs

The Supreme Court of the United States struck down the Trump administration’s reciprocal tariffs in a 6-3 decision, ruling that the International Emergency Economic Powers Act (IEEPA)’s authorisation of “regulation” of trade did not allow for its taxation. They did not address refunds. Lower courts will have to determine how this will work. This decision may also call into question the future of trade deals that the administration had previously struck with other countries.

Over the weekend of the 21 to 22 February, President Trump had already executed a new plan to reimpose tariffs, increasing global tariffs by 10% under Section 122. This should slightly decrease the effective tariff rate that the US charges, relative to IEEPA levels. These tariffs can, however, rise over time, as Section 122 authorises tariffs of up to 15% for a maximum period of 150 days. The White House has highlighted multiple exemptions to this 15% blanket tariff, including energy, pharmaceuticals, electronics, autos and USMCA-compliant goods for Canada and Mexico.

**The impact on the economy:** the potential for less-than-full IEEPA tariff replacement or more consumer-friendly tariff composition tilts inflation risks to the downside and growth risks to the upside. This is our base scenario at this stage. In the event of full replacement there would be little change on the inflation outlook but temporary downward pressure on economic growth.

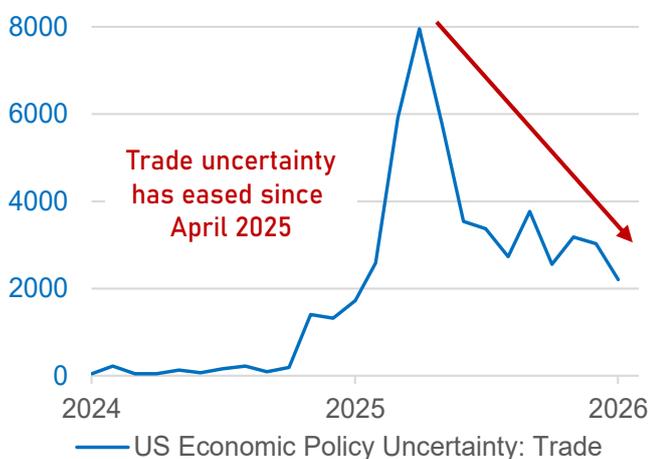
## Higher risks for the US bond markets

US Treasury yields may come under pressure. The elevated level of fiscal stimulus—driven both by large tariff refunds (about USD 130 bn over time, we estimate) and potentially lower tariffs moving forward—poses a significant risk to the US fiscal outlook. We believe IEEPA tariffs amounted to roughly 0.6 % of GDP annually. Their removal makes an already challenging fiscal outlook even more precarious.

In such an environment, it is difficult to justify the recent 4% yield level on the 10-year government bond. Potential GDP growth is estimated at around 1.8% with a 2% inflation target. To that we must add a bond premium, estimated at 0.25%. That is why we maintain our 12-month target of 4.25% at this stage. The risk that the bond premium will rise further is high. Even if we keep the 4.25% assumption, there remains considerable upside from current levels (see chart below). **Accordingly, we recommend avoiding longer-maturity US bonds.**

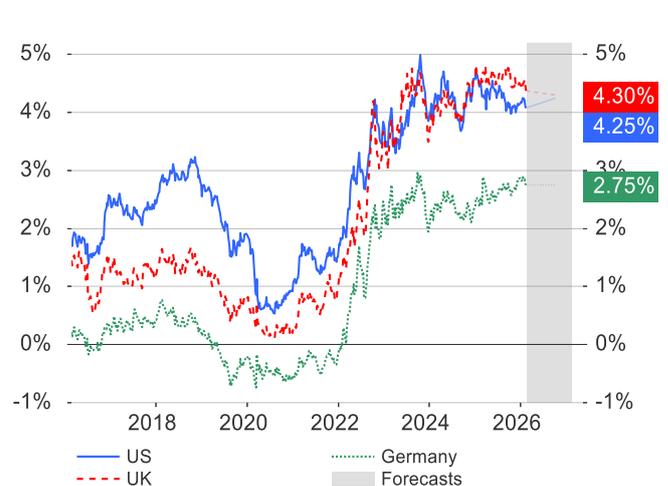
Lower tariffs also reduce the incentive to invest in the United States, which should be reflected in a weaker USD valuation. Finally, lower tariffs should bolster global trade and growth. The recent stronger-than-expected US employment data and the fact that the core personal consumption expenditures (PCE) inflation rate has remained higher than expected have prompted us to revise our outlook for the Fed. We now expect the Fed to cut only one more time in September while the ECB should remain on hold.

### US TRADE UNCERTAINTY HAS DECLINED SHARPLY SINCE APRIL 2025



Source: Bloomberg, Baker, Bloom & Davis

### BOND YIELD OUTLOOK



Source: LSEG Datastream, 23/02/2026

# Financial markets do not reflect geopolitical instability

## Where is the geopolitical risk being priced?

At first glance, global stock markets at, or close to, all-time highs and historically tight credit spreads would suggest that all is well in the global economy at present. However, in reality this is far from the truth. There are several seismic changes underway in terms of political shifts, government debt burdens are at, or near, historic highs, threatening a new era of fiscal dominance, and the world is still learning to adapt to a new multipolar world order.

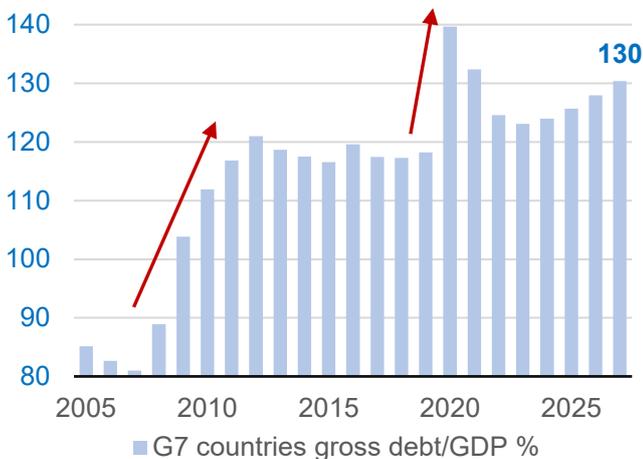
## Deglobalisation, Disruption, Demagogues

There are several emerging fractures in the world order that investors need to take into account:

- 1. Shift from unipolar to a multipolar world:** the Trump administration has decided to pull back from heavy involvement in Europe and Asia, a return to the 19<sup>th</sup> century Monroe Doctrine. Within this new order, global instability could increase and middle powers such as India, Turkey, the UK, Australia and Canada, potentially have a greater role to play in key geopolitical matters including defence, resource supply and trade.
- 2. Rising nationalism and anti-immigration sentiment:** evident in the UK (Brexit), the US and in Japan. This is one factor behind the rise of populist leaders and a greater vote share for extreme right-wing parties across Europe. There is a knock-on effect from limiting immigration to labour force growth, risking higher wage inflation.

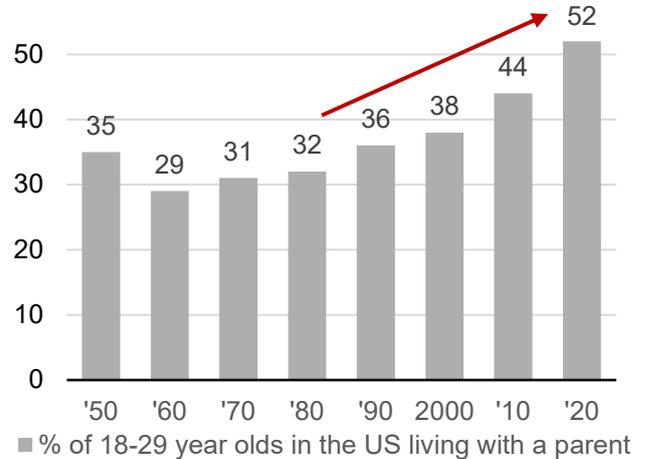
- 3. Deglobalisation and control of natural resources:** in real terms, global trade volumes peaked in 2008 and have declined since. Indeed, 2022 was a pivotal year given the Ukraine-linked surge in commodity prices and geopolitical tensions. January-April 2025 was a second catalyst with the introduction of dramatically higher US import tariffs. Resource scarcity is becoming more evident, while higher trade tariffs may increase baseline inflation.
- 4. Record levels of government debt:** post the Global Financial Crisis and the COVID-19 pandemic and associated crisis spending, average G7 country debt/GDP ratios surged to 125% in 2025 and are projected to rise further to 130% this year. Fiscal dominance, when central banks are obliged to work with federal governments to support refinancing of debt burdens at affordable interest rates, dominates over the goal of price stability.
- 5. Youth employment and housing crisis:** the current Generation Z (born between 1997 and 2012 and thus aged 13-28 today) will likely sustain a worse average living standard than previous cohorts in terms of housing affordability, real wages and a high level of debt. In contrast, earlier generations control net financial wealth, in particular in housing. This increases inter-generational tensions between the (older) haves and the (younger) have-nots, fuelling populism.

**G7 GOVERNMENT DEBT/GDP RATIOS CONTINUE TO RISE**



Source: IMF, Bloomberg, BNP Paribas

**THE MAJORITY OF US YOUNG ADULTS NOW LIVE WITH THEIR PARENTS**



Source: Pew Research Center

## What long-term conclusions for asset allocation?

### Do not bet just on long-term bonds to hedge stocks

Many of these long-term geopolitical and demographic trends point to higher inflation risk over time. Most diversified investment portfolios include large allocations to global stocks and bonds, on the assumption that bonds will outperform at times when stocks fall substantially and thus dampen the losses from stocks.

However, this assumption is largely based on the 2000-20 period, when stocks were indeed negatively correlated with long-term government bonds. However, this was a period when real yields were relatively low and inflation was low and stable. If we look at the 1965-2000 period, we find that the average correlation between US stocks and bonds was actually +0.28 according to PGIM. This compares to a -0.29 correlation between US stocks and bonds over 2000-20. Since 2021, this correlation has shifted back into positive territory, underlined by the fall in stocks and bonds together over calendar 2022.

At a time when deglobalisation, more limited immigration and restricted supply growth of key raw materials threaten to keep global inflation at higher levels than during the first two decades of the 2000s, building in more explicit inflation-hedging asset exposure makes sense to us. We particularly favour adding exposure to gold, industrial commodities and infrastructure (listed and private).

### Avoid ultra long-term government bonds

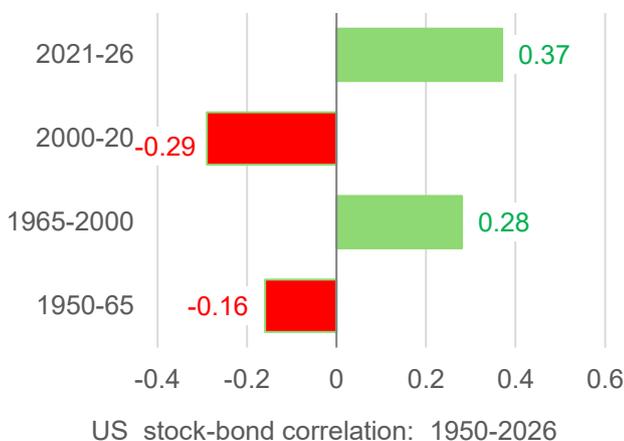
The question of long-term government debt sustainability will remain top of mind for investors in this era of record-high debt/GDP ratios. Credit risk has become very important even for developed market government bonds. The era of eurozone sovereign bond yield convergence is now over, and sovereign bond ratings have been downgraded in recent years even for the US and France, reflecting the deterioration these countries' credit characteristics.

In addition, term premia for 10-year sovereign bonds in the US (0.66%) and Germany (1.02%) continue to trend higher but remain far below the average term premia observed over the 1999-2014 era (1.45% and 1.91% respectively). Within conservative fixed income portfolios, we would limit duration exposure to below-benchmark levels in Europe and the US.

### Commodity producers to benefit from geopolitics

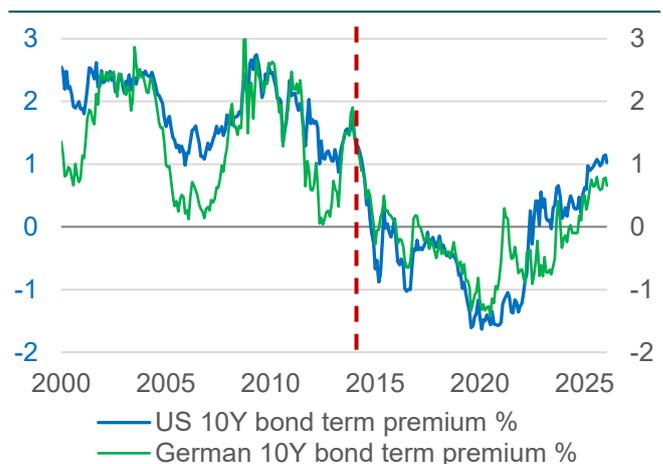
Several key commodities benefit from demand megatrends for key critical materials coming from AI/datacentres, electrification and defence spending. At the same time, long lead times before the response of global supply suggest that commodity producers of gold, silver, copper, lithium and rare earth metals remain in a sweet spot to benefit from this demand growth via higher prices. Geopolitical tensions drive the need to build national stockpiles of these critical materials, as identified by the US and China, and now with Europe realising a similar need.

**US STOCK-BOND CORRELATION HAS NOT ALWAYS BEEN NEGATIVE**



Source: PGIM, Bloomberg, BNP Paribas

**US + GERMAN BOND TERM PREMIA CONTINUE TO RENORMALISE**



Source: Bloomberg, BNP Paribas

# Renewed US Private Credit concerns

Hiba Mouallem

## New concerns over US private credit

The US private credit market is facing growing scrutiny as cracks begin to show. The late-2025 collapse of auto industry players Tricolor (a major car dealership chain) and First Brands (a key auto parts supplier) first sounded the alarm, raising questions about the resilience of US private lending.

Now, the spotlight is back on this asset class after Blue Owl, a high-profile asset manager, made a startling move: one of its funds (ODBC II), designed to offer investors quarterly redemptions of up to 5% of the fund's value, suddenly froze withdrawals in mid-February. Instead, investors were told that they would receive their capital back only upon successful asset sales.

This unfolding drama comes against the backdrop of a decade-long growth in private debt, where assets under management have surged. The fallout? Blue Owl's stock has plummeted by 55% since early 2025, further confirming the worsening sentiment surrounding private credit.

These developments remain largely concentrated in the United States, with the European market largely untouched thus far.

## AI pressure on software companies impacting private credit market

Software companies came under pressure last week from the launch of Anthropic's Claude Code AI coding agent, which led to a sell-off in software companies. As many private credit funds are exposed to loans to the software sector, listed private credit managers and funds suffered from a fall in stock prices.

## Indicators to watch for signs of increasing stress

In our December 2025 ISF publication, we listed five public market indicators that we were monitoring in order to judge whether the concerns from private credit markets could spread elsewhere in the financial system:

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

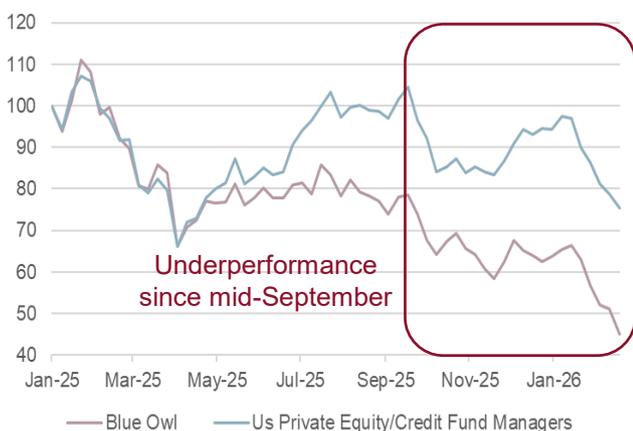
Private equity and private credit fund managers' stocks have underperformed markedly since September, accelerating in February. This basket underperformed in line with Blue Owl's stock price which itself recently undercut April 2025's low. US leveraged loan ETFs have also dropped to new lows as investors reduce exposure to this market.

However, other measures such as the CCC-BB high yield credit spread regional bank stocks show no sign of additional financial stress.

UBS analysts predict a surge in default rates in private credit that could reach 15% led by AI disruption in a worst-case scenario.

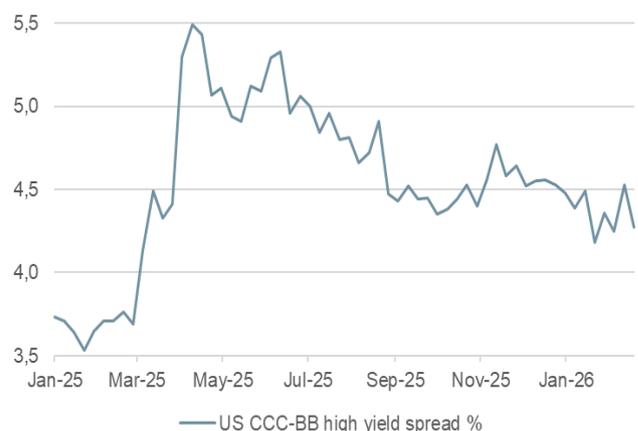
Thus far, there is little spillover to other markets, but we continue to watch for signs of contagion.

**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 SHOWS NO CONTAGION FROM PRIVATE CREDIT**



Source: Bloomberg

## Summary of our main recommendations, by asset class

	Current Recom	Prior Recom	Segments	We overweight	We underweight	Comments
EQUITIES	+	+	Markets	UK, Japan, China, Brazil, Mexico, 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, Industrials and Mining, EU Banks, EU Utilities	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	Cyclical Value		Commodity-related stocks, Financials
BONDS	=	=	Govies	UK government bonds		Neutral on sovereign bonds globally, favour maturities of less than five years. 12-month US 10Y yield target 4.25%, German 10Y bund yield 2.75%, UK 10Y gilt yield 4.3%.
	+	+	Credit	Euro IG and UK IG		We prefer the EUR and GBP IG corporate bonds (Positive view) to USD IG bonds (Neutral view) given the supply dynamics and the level of spreads. We focus on quality.
	+	+	EM bonds	Local currency		Positive on EM bonds in local currency. Good fundamentals remain in place, further USD weakness expected.
CASH	-	-				We change our outlook for the US Fed and now expect only one more 25bp rate cut (in September), so a terminal rate of 3.50% for the Fed. We expect no change this year from the ECB, and a hike in September 2027.
COMMODITIES	+ / + / =	+ / + / -		Copper (+) Gold (+)		Oil (=) Neutral stance, short-term target USD80, long-term range for Brent crude oil of USD 60-70; potentially higher non-OPEC oil supply balanced by increasing global demand. Base metals (+) The outlook for the industrial sector is helped by rising demand and constrained supply. Gold (+) the last correction offers some upside again for gold, our new 12m target is USD 5500, Silver (=) USD 90 for our 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.
INFRA STRUCTURE	+	+		Energy, transportation, water		Excellent long-term returns expected from private and listed infrastructure given long-term underinvestment.



## Economic and FX forecast tables

<b>BNP Paribas Forecasts</b>			
GDP Growth%	2025	2026	2027
United States	2.2	2.9	2.0
Japan	1.1	0.6	0.9
UK	1.3	1.1	1.3
Switzerland	1.4	1.0	1.6
<b>Eurozone</b>	<b>1.5</b>	<b>1.6</b>	<b>1.6</b>
Germany	0.4	1.4	1.5
France	0.9	1.3	1.3
Italy	0.7	1.0	0.9
<b>Emerging</b>			
China	5.0	4.7	4.5
India*	7.6	7.0	6.8
Brazil	2.2	1.8	1.4

\* Fiscal year  
Source : BNP Paribas - 02.03.2026

<b>BNP Paribas Forecasts</b>			
CPI Inflation%	2025	2026	2027
United States	2.7	2.6	2.7
Japan	3.1	1.9	2.5
UK	3.4	2.4	2.2
Switzerland	0.2	0.4	0.7
<b>Eurozone</b>	<b>2.1</b>	<b>1.9</b>	<b>2.3</b>
Germany	2.2	1.6	2.3
France	1.0	1.1	1.5
Italy	1.7	1.5	1.9
<b>Emerging</b>			
China	0.1	0.9	1.0
India*	2.1	4.1	4.3
Brazil	5.0	3.8	3.8

\* Fiscal year  
Source : BNP Paribas - 02.03.2026

	Country	Spot 02/03/2026	Target 3 months	Target 12 months
<b>Against euro</b>	United States	EUR / USD 1.17	1.18	1.24
	United Kingdom	EUR / GBP 0.87	0.87	0.87
	Switzerland	EUR / CHF 0.91	0.92	0.92
	Japan	EUR / JPY 184	186	192
	Sweden	EUR / SEK 10.71	10.80	10.60
	Norway	EUR / NOK 11.20	11.30	11.10
<b>Against dollar</b>	Japan	USD / JPY 158	158	155
	Canada	USD / CAD 1.37	1.38	1.35
	Australia	AUD / USD 0.71	0.71	0.68
	New Zealand	NZD / USD 0.59	0.60	0.60
	Brazil	USD / BRL 5.20	5.40	5.70
	India	USD / INR 91.48	90.00	90.00
	China	USD / CNY 6.89	6.80	6.80

Source: BNP Paribas, Refinitiv Datastream. As at 2 March 2026

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