OCTOBER 2025

Investment Strategy Focus

Commodities deserve a place in your portfolio

Summary

1. **How low can the Fed go?** Not just a fundamental question based on a weak labour market, but now also a political one. We now target 3.25% as the cycle low, but political pressure and a weaker economy could take the Fed even lower in time. Favour below-benchmark US sovereign and corporate bond duration.
2. **Why is the ECB stopping at 2%,** while inflation has returned to 2%, the euro is strengthening and eurozone growth is modest? Remember that it takes a long time for interest rate cuts to help growth. We raise our 12-month EUR/USD target to USD 1.24, given converging US and EU rates.
3. **Tech is no longer just about the Mag 7:** the increasing excitement over homegrown AI models and hardware in China is driving Hang Seng Tech outperformance vs. the US Nasdaq 100 this year. We think this can persist, with foreign investors still largely underweight China. Positive on Chinese stocks, particularly Tech.
4. **We advise commodity exposure in diversified portfolios.** Raw materials are a real diversifier, at a time when bonds no longer act as a hedge for stocks. The Equal Weight Commodities Index is +14% this year in USD, led by precious metals and copper. The precious metals bull market has not yet run its course, so we remain positive on gold and silver.
5. **Upgrading equities to Overweight:** Global equity markets are showing incredible strength on the back of economic resilience. We upgrade US equities to Neutral over lower interest rates and downgrade European equities to Neutral given potential FX headwinds. Stay positive on Japan, South Korea, China, UK.

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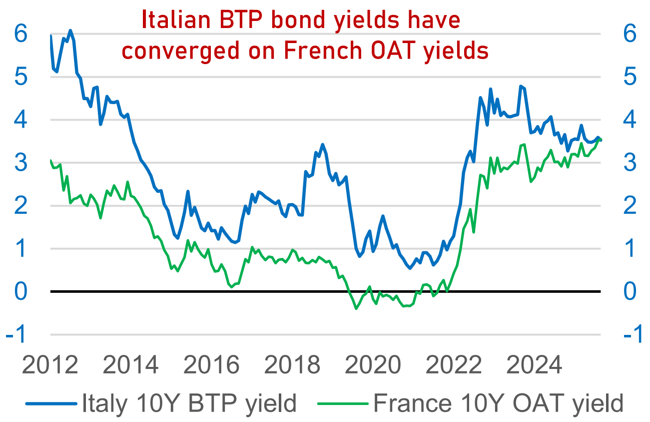
FRENCH AND ITALIAN BOND YIELDS FINALLY MEET



Source: BNP Paribas, Bloomberg

Edmund Shing, PhD

Global CIO

BNP Paribas Wealth Management

BNP PARIBAS WEALTH MANAGEMENT

The bank for a changing world

Macro, Market Views

Macro			– The key question in the US: how will tariffs impact the US consumer and inflation? The first signs of tariff impacts are now being seen. We expect a further slowing of domestic consumption to occur in H2, even though Q2 growth was 3.8%. – In the eurozone, consumer confidence is being supported by lower ECB rates. The announced German stimulus plan should boost long-term potential growth. Chinese stimulus could bring positive surprises.
Rates		+	– Positive on core eurozone government bonds (intermediate maturities preferred) and on UK gilts (12-month yield target is 4.4%). – Positive on US Treasuries; prefer shorter-term (2-5 year) maturities. US Fed Funds rate target 3.75%, ECB to maintain deposit rate at 2% by end-2025 – We see the US 2-year yield at 3.6% in 12 months, 10-year yields at 4.25%. Our 12-month target on the German 10-year bund yield is 2.75%.
Credit		+	– We stay Positive given solid corporate balance sheets and cash flows, strong technicals, high carry and low volatility. We prefer intermediate maturities in the eurozone and in the US. – We continue to like EUR IG corporate bonds, and we stay Positive on UK IG corporates (offering a 5.3% average yield).
Equities		+	– Upgrade Equities to Positive on strong liquidity and lower rates, robust growth and earnings momentum. Favour UK, Japan, South Korea, China – Positive on Health Care and Utilities. For the EU, Positive on Banks, Industrials Neutral on US Consumer Discretionary, Technology
Real Estate		=	– Demand for European real estate continued to improve in Q2 2025, with investment volumes rebounding and rental yields now more attractive at 4.3%-5.0% for prime European commercial property segments. Residential property prices are also rising in Spain, Italy, Germany and the Netherlands. – Industrial/logistics exposure preferred for healthy yields, higher expected rental growth on robust underlying demand growth.
Commod-ities		+/-	– Gold: Positive view as EM central banks continue to make strategic purchases and Asian households remain buyers. Gold 12m target USD 4000/ounce. Increased silver 12m target of USD 50/ounce. – Negative stance on Oil, price range for Brent crude oil of USD 60-70 on weaker global oil demand, potentially higher non-OPEC oil & gas supply and an expected reduction of OPEC+ production quota cuts in 2025.
Alternative UCITS/ Private Assets		=	– We favour relative value equity, credit, and convertible arbitrage funds for their robust risk-adjusted returns at low volatility. – Attractive yield opportunities on private debt strategies, including Collateralised Loan Obligations (CLOs) and Insurance-Linked Securities funds (catastrophe bonds).
FX			– The prospect of weaker US growth, a lower Fed Funds rate and capital flows from the US back to Europe/Middle East/Asia could lead to a weaker US dollar. – New EUR/USD 3-month target USD 1.16; our 12-month target has been increased to USD 1.24 (value of one EUR).

Fed, Long Bonds and Inflation

Fed cuts rates. Two more cuts to come this year?

The combination of intense political pressure from President Trump and a weakening jobs market has forced the Fed's hand, with a cut in the Fed Funds rates of 0.25%. The Fed recently cut the Fed Funds rate by 0.25% to 4%-4.25%. Further, in their dot plots forecasts, they suggest that two further rate cuts are likely on their way in November and December, bringing the Fed Funds rate down to 3.5%-3.75% by year-end.

By weighing up the risks to inflation and to employment, the Fed has clearly stated that it wants to support the labour market. In the short term, it is apparent that inflation (the Fed's preferred measure is core PCE) sits well above the Fed's 2% target, and that tariffs are likely to boost goods inflation further in the coming months as US companies attempt to pass on the increased cost of imports.

However, to counteract this inflationary impulse from imports we have lower gasoline prices, easing rents /house prices and lower wage growth. It is also unclear to what extent US consumers will accept higher goods prices - they may simply seek cheaper substitutes or even buy less or delay purchases.

There is an argument that tariffs may be initially inflationary but ultimately deflationary, if the result of tariffs (which are, after all, a tax on goods consumption) results in lower retail sales and thus lower growth.

All in all, this is no doubt an unusual and complicated macro environment for the Fed to navigate, without even accounting for the political pressure exerted by the Trump administration.

A surprising reaction from long-term US Treasuries

Despite 5-year consumer expectations of inflation hovering close to 3% and US Treasury bond issuance expected in excess of USD 1bn over Q4 2025, both 10- and 30-year Treasury bond yields have eased to 4.1% and 4.6% respectively. This is good news for homebuyers in the US, as the 30-year fixed mortgage rate has fallen to its lowest in nearly a year, i.e. to 6.4%.

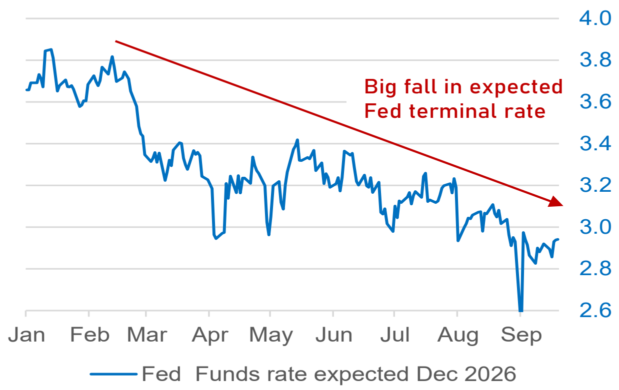
Ultimately, US Treasury bonds are not pricing in high long-term US inflation rates, with the current 10-year US Treasury bond inflation breakeven rate remaining at around 2.4%, close to its level at the start of this year.

Long-term bond yields in Germany and Japan have followed the US 30-year Treasury lower, providing some respite from the prevailing rising trend in yields.

In our view, clients are best served by not buying ultra long-term bonds even with the higher yields on offer today. There is still a high likelihood that the difference between 10-year and 20- or 30-year sovereign bond yields will widen further in the US, Europe and Japan in the medium term, given the high levels of government debt and wide budget deficits forecast for 2025 and 2026. We would thus rather wait before buying these very long-term maturities.

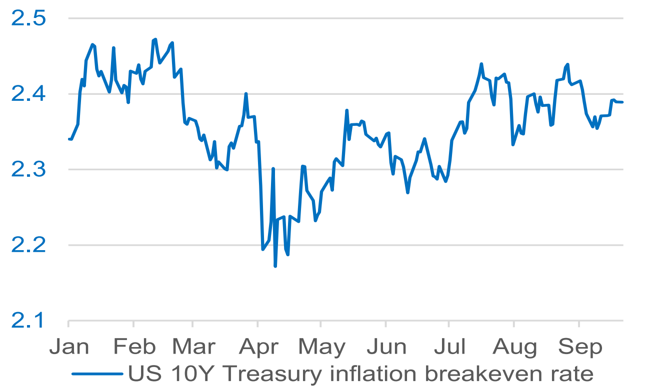
We continue to recommend medium-term duration for both sovereign and investment grade corporate bond investments, typically in the 5-7 year range.

MARKETS EXPECT FED FUNDS RATE TO BOTTOM TO CIRCA 3% BY END-2026



Source: BNP Paribas, Bloomberg.

US LONG-TERM INFLATION BREAKEVEN RATE ANCHORED AROUND 2.4%



Source: BNP Paribas, Bloomberg

Credit risk considerations

Corporates safer than sovereigns?

The traditional method of pricing high quality corporate bonds is with reference to the underlying sovereign bond yield, and then adding a credit spread to reflect the higher risk of default. Today, investment grade corporate spreads have tightened to historic lows of under 1% for BBB-rated bonds over equivalent sovereigns in the US and eurozone.

Clearly, this tight spread reflects both i) the desperate hunt for additional yield by investors at a time when cash deposit rates have fallen, and ii) the strong balance sheet and cash flows of most large corporate borrowers. However, we should also perhaps consider that this tighter spread may also reflect the fact that the US and eurozone countries no longer look as “risk-free” as they once did, given today’s record-high levels of government debt compared to GDP.

Consider that a 30-year Microsoft corporate bond (rated AAA) today offers a 4.8% yield, only 0.2% above a similar maturity US Treasury bond. Many investors may prefer to lend money over a long period to Microsoft than to the US Federal government, given Microsoft’s long record of profit growth, virtual monopoly of operating system and office suite and net cash position. Should we regard Microsoft as a safer long-term credit risk than the US government today? As governments strain to finance annual budgets against a backdrop of higher interest costs, could we be entering an era where high quality corporate bonds will trade consistently at tight spreads over sovereign bonds?

ECB to remain at 2% despite well-behaved inflation

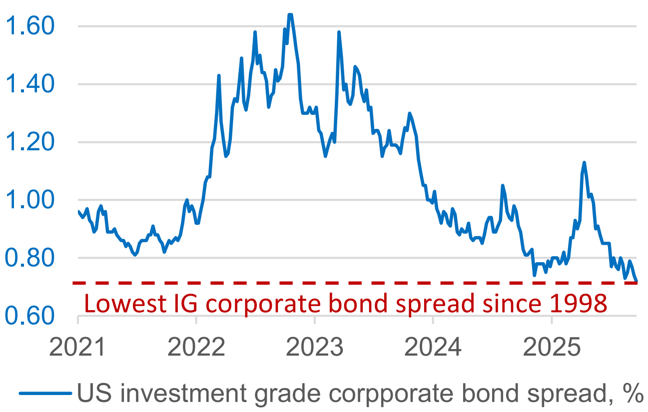
We do not see the European Central Bank reducing their deposit rate below 2%. In real terms (after deducting inflation), this is a real rate of around zero. A neutral rate would have the ECB’s real interest rate equivalent to the eurozone’s real GDP growth rate, which we estimate at 1.2%-1.3% for this year and next. In the ECB’s estimate, they have thus already reduced interest rates to below the neutral rate and are already supporting economic growth.

Compare the ECB’s 2% rate to the effective Fed Funds rate in the US of 4.1% or the Bank of England’s base rate of 4.0%. Even after subtracting inflation rates that are well above 2%, US and UK real rates are positive. By this measure, the ECB is doing more to stimulate growth than either the Fed or the Bank of England.

However, growth in the eurozone remains weak, a stronger euro is weighing on both growth and inflation, and inflation could fall below 2% in the next few months especially if energy prices continue to cool. On this basis, the ECB could conceivably cut their deposit rate further without risking higher inflation.

For now, we do not expect the ECB to lower interest rates further unless there is a material slowdown in growth. A good reason for the ECB to “wait and see” is in the long transmission time from interest rates to the real economy. The lag between a cut in rates and the positive impact on growth can be as long as 12-18 months. The ECB would argue that we have not seen the full effect of the interest rate cuts already implemented in boosting eurozone growth.

US AND EURO CORPORATE BOND SPREADS COMPRESS TO MULTI-DECADE LOWS



Source: BNP Paribas, Bloomberg.

EURO APPRECIATION THIS YEAR SHOULD DRAG ON INFLATION, GROWTH

Source: BNP Paribas, Bloomberg

Upgrading equities to Overweight

Stephan Kemper

This is about momentum...

It is hard not to be impressed by the momentum with which global stock markets keep rising. The US is marking its 28th record high this year and, markets such as China, Japan, EM and even Europe are breaking out to the upside as well. The move is driven by a surprisingly resilient US economy, solid earnings and easy monetary positioning. It feels like the equity train has reached escape velocity. Hence, we upgrade our view on equities to overweight.

.....and not about (long-term) fundamentals

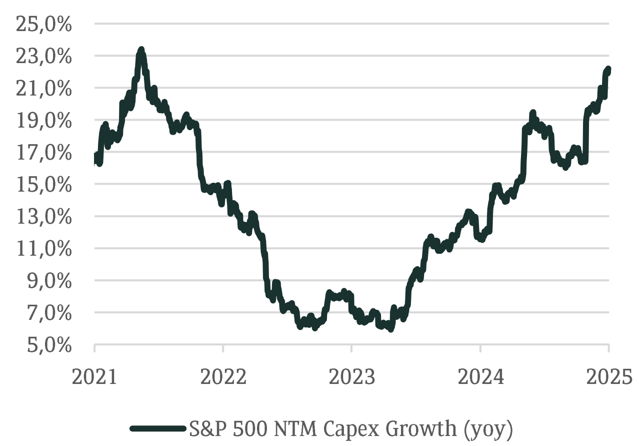
Does this mean our concerns regarding the potential impact on tariffs or AI overspending have disappeared? No, they have not. We remain sceptical and still wonder if AI can produce the expected productivity gains that will force the implementation rate required for these investments to yield enough return to justify the valuations. But we believe that these concerns are not for the near term, as it will take some time before the winners and losers from AI become apparent. Big Tech CEOs are likely to keep spending on their AI dreams. This, in spite of concerns over the Return on Income that this heavy investment will ultimately earn. The spending trajectory is further boosted by the impact of the OBBBA on corporate capex. It enables businesses to fully write down the costs of machinery, equipment and domestic R&D immediately.

Don´t fight the Fed!

What matters is an economy that seems (for now at least) to be denying the gravity of tariffs and a slowing labour market while the Fed embarked for further rate cuts. We have updated our expectation to two rate cuts in 2025 (versus one previously) and in 2026. This should add further fuel to a market that is already enjoying tailwinds of easy financial conditions (see Chart 2). No matter where we look, history suggests that the current strength has room to run as rate cuts outside a recession has historically been a strong force pulling equities higher (see Chart 3). Moreover, our FX strategists have upgraded their 12m EUR/USD target to 1.24, which should support earnings growth for US large caps in general and US mega cap tech companies in particular.

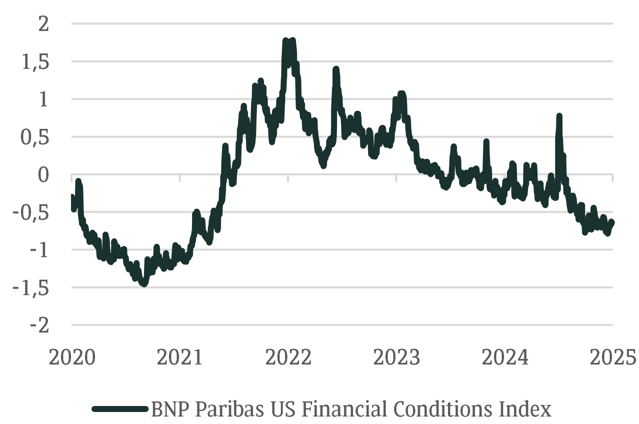
We **upgrade US equites to Neutral.** Due to our dollar view**,** adding FX-hedged exposure might be worth considering.

US CAPEX GROWTH IS REACHING THE HIGHEST LEVEL SINCE 2021



Source: BNP Paribas, Bloomberg

US FINANCIAL CONDITIONS HAVE EASED SUBSTANTIALLY SINCE APRIL 2025



Source: BNP Paribas, Bloomberg

Keep course in Europe but a little less aggressively

After a stellar start to the year, European equities went into a consolidation phase during the summer. In our view, this was driven by two major impacts. Firstly, the ongoing euro strength weighed on consensus earnings expectations which was revised to -1% EPS growth for 2025 (vs. +8% in January). This didn't impact all companies equally as the earnings of US-exposed stocks were been revised down 10–15%, while the earnings of domestic exposed stocks managed to grow. Secondly, the market seems to have entered a "show me" phase in respect to increased spending.

Looking ahead to 2026, stronger European GDP growth should support earnings while FX headwinds will persist. We thus think that the current consensus expectation of ~12% earnings growth is too high which makes earnings downgrades likely. Since we don´t think Europe can outperform going forward, **we downgrade Europe to Neutral.** Within Europe, however, we retain our current preferences and continue to prefer exposure to the European autonomy theme, domestic exposure (especially SMIDs) and certain sectors like banks.

Emerging Markets enjoy healthy tailwinds

We reiterate our overweight call on emerging markets. Looking forward, we think the EM equity rally can extend until year-end as macro tailwinds from Fed rate cuts and a weak dollar continue. Positioning and flow trends remain supportive amid ongoing strong demand for diversification and positive Q4 performance seasonality.

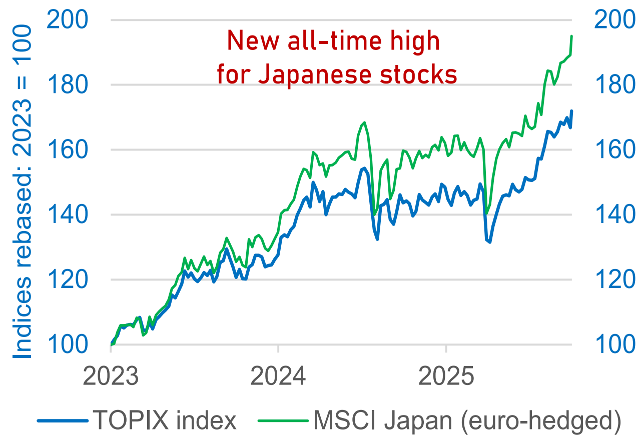
Big in Japan

We also reiterate our Overweight call on Japanese equities. We see the following factors to continue supporting the market: a constructive global economy, a recovery in the Japanese economy driven by external and internal forces (e.g. wage growth), solid corporate earnings and ongoing corporate reforms.

There is one key message

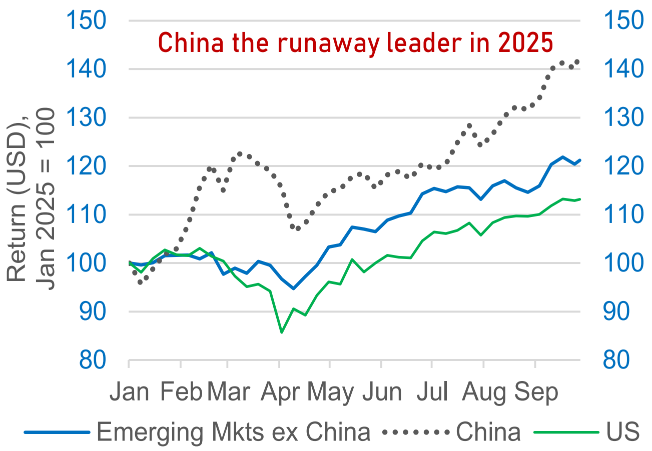
There is a real risk that we will see echoes of the last bullish phase of the dot.com bull market. We don´t want to fight that trend and so we increase our equity allocation to Overweight. Hence, **we focus on the main message which is that the bull market is alive and strong.** A more nuanced view will be provided in the upcoming Equity Focus.

JAPANESE STOCKS +19% YEAR-TO-DATE ON EURO-HEDGED BASIS



Source: BNP Paribas, Bloomberg

CHINESE STOCKS HAVE LED THE WAY HIGHER IN 2025



Source: BNP Paribas, Bloomberg

Everyone is underweight commodities...

According to the latest Goldman Sachs survey of global family offices, these family offices only hold a 1% total allocation to commodities in their portfolios. This compares to an average allocation of 12% in cash and near-cash, and another 11% in listed bonds and corporate credit.

...despite a strong 2025 performance, so far

This strong performance is somewhat surprising for two reasons: the Commodities asset class has performed strongly over 2025, and indeed over the last 5 years. The S&P GSCI equal-weight commodities index has risen 15% in US dollars this year and has doubled in value over the last 5 years (15% annual average return).

Precious metals (gold, silver, platinum) have been the star performers with 44%-80% returns this year, but strategic industrial metals, such as copper (+20%) and tin (+26%), have also benefited from a combination of solid technology-related demand growth and restricted supply. Other commodities, such as cattle and coffee, have also risen sharply this year.

Commodities can play an important role in a well-diversified portfolio

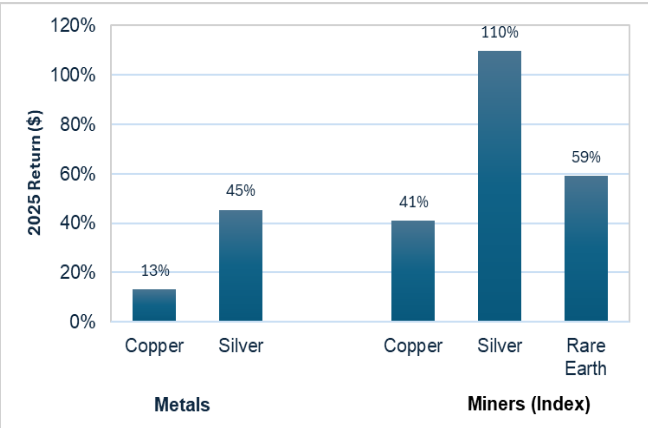
Achieving true diversification in investment portfolios today has become a lot harder.

Global stock indices are more concentrated than ever, following the long-term outperformance of US mega-cap technology stocks, such as Nvidia. Any reversal in fortune of these technology stocks would have a heavy impact on overall performance of the 1350-stock MSCI World index, given the 22%+ weighting of the Magnificent 7 in this index.

What makes portfolio diversification even more difficult today is the positive correlation between stock and bond markets. According to Amundi, the 5-year correlation (2020-2024) between stock and bond markets varied from +0.44 for the UK to +0.62 for the US, with only China offering a negative correlation over this time span between local stocks and bonds. This is very important to know when constructing multi-asset portfolios, as it suggests that stocks and bonds now tend to go up and down together. Most importantly, it suggests that bonds will no longer act as a cushion for portfolio performance when stock markets correct or enter a bear market, as was generally the case from 2000 to 2019.

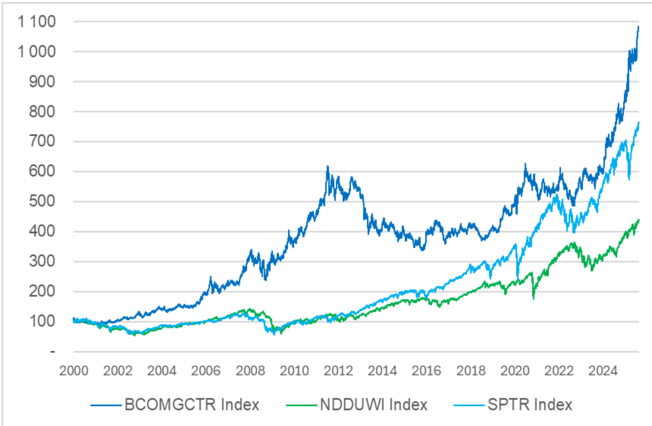
Take the recent example of 2022, notable for the Russian invasion of Ukraine. Over calendar 2022, global bonds returned -16% in US dollars, while global stocks returned -18%. Not much diversification of performance evident there. In contrast, the Bloomberg commodity index offered a +16% return over this same period.

STRONG PERFORMANCE FOR CRITICAL METALS AND MINERS



Source: BNP Paribas, Bloomberg

GOLD HAS BEATEN US, GLOBAL STOCKS SINCE 2000



Source: BNP Paribas, Bloomberg

Commodities have diverse drivers

The Commodities asset class is, by its nature, well diversified among the various subclasses such as precious metals, energy, industrial metals and soft commodities (foodstuffs, cotton).

Soft commodities are often affected by climate and crop yield, while energy and industrial metals are, by nature, closely tied to the ups and downs of the global economic cycle. Precious metals are largely considered as a store of value (gold in particular) and so tend to perform well in times of crisis and geopolitical stress.

Commodities suffered post the last 1999-2008 super cycle

Commodities as an asset class have historically enjoyed long bull and bear markets. The last commodity super cycle was driven by the boom in Chinese manufacturing capacity over 1999-2008, when the S&P GSCI commodities index rose 580% from trough to peak (23% annualised). Following the 2008 Global Financial Crisis, commodities suffered a prolonged bear market, falling 72% to March 2020.

Since early 2020, the combination of i) a post-COVID reopening economic boom and ii) the 2022 invasion of Ukraine has resulted in a 144% gain in the S&P GSCI equal-weight commodities index (+18% annualised to date).

Preferred ways to introduce commodities into a diversified portfolio

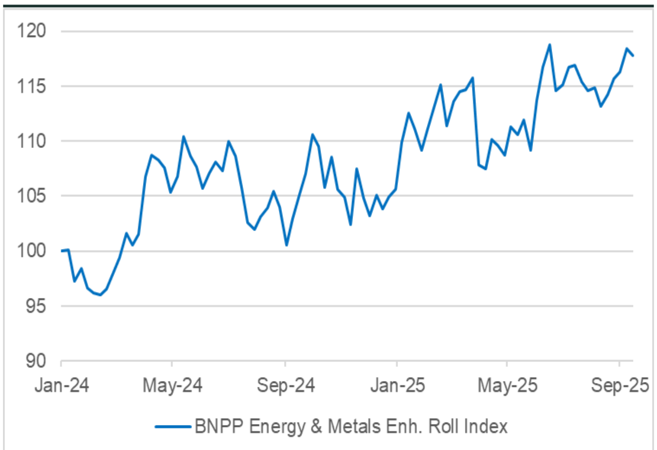
Today, there are several "intelligent" ways to add commodity exposure easily to a diversified multi-asset portfolio. We particularly like commodity strategies and indices that capture the roll yield in commodity futures that are in backwardation. This is where the far-dated future price is lower than the spot price, potentially capturing extra returns over time as the lower futures prices converges on the higher spot price.

One such strategy is the BNP Paribas Energy & Metals Enhanced Roll index, which has delivered a 15% return (hedged) in euros and 18% in US dollars over the last 12 months. This index only holds exposure to commodities in backwardation, and is currently exposed to gold, silver, natural gas, oil and copper.

A second simpler diversified commodities strategy to follow is embodied in the Bloomberg equal-weight commodity ex-Agriculture index, which holds a basket of 12 different commodities split between energy, industrial metals and precious metals. This has returned 9% over the last 12 months in euros and 15% in USD.

Finally; there are several funds and ETFs that give exposure to single commodities, such as gold, silver, platinum, copper, aluminium, and tin.

STRONG 2024-25 PERFORMANCE FOR ENHANCED ROLL COMMODITIES INDEX



Source: BNP Paribas, Bloomberg. Note: Index in US dollars

EQUAL-WEIGHTED COMMODITIES INDEX CLOSE TO ITS HIGHEST IN 15 YEARS

Source: BNP Paribas, Bloomberg

Summary of our main recommendations, by asset class

	Current Recom	Prior Recom	Segments	We like	We avoid	Comments
EQUITIES	+	=	Markets	UK, Japan, China, Singapore, South Korea		**Upgrading equities to Overweight**: Global equity markets are showing incredible strength on the back of economic resilience. We upgrade US equities to Neutral over lower interest rates and downgrade European equities to Neutral given potential FX headwinds. Stay positive on Japan, South Korea, China, UK.
			Sectors	Global Health Care, Utilities, EU Industrials, EU Banks	EU Oil & Gas, Consumer Staples	**Banks** should benefit from improving loan demand, elevated Net Interest Margins & loan loss provisioning. **Health Care** has benefited from a strong earnings season and promising drug pipelines.
			Styles/ Themes	Quality, Megatrend themes		Circular Economy, Electrification, Security, Deep Value themes
BONDS	=	=	Govies	Favour intermediate euro and US short duration		Positive on intermediate maturity core eurozone, UK government bonds, US Treasuries; prefer shorter-term (2-5 year) maturities. 12-month US 10Y yield target 4.25%, German 10Y bund yield 2.75%, UK 10Y gilt yield 4.4%.
	+	+	Credit	Euro IG credit, UK IG		We favour investment grade credit, focusing on EU credit on the back of decade-high yields and strong balance sheets. We remain Positive on UK IG corporate bonds.
	+	=	EM bonds	Local currency		Positive on EM bonds in local currency. Good fundamentals remain in place, further USD weakness expected.
CASH	-	-				Two further cuts will take the Fed Funds rate to 3.75% by end-2025, 2% maintained for the ECB deposit rate.
COMMO-DITIES	+/+/-	+/=/-		Gold (+) Silver (+) Copper (+)	Oil (-)	Oil (-) Weaker global oil demand and the prospect of a steady reduction in OPEC+ production cuts are forcing Brent prices into the USD 60-70 range. Base metals (+) The outlook for the manufacturing sector is helped by rising demand, constrained supply. Gold (+) Positive for the longer term 12-month range = USD 4000, Silver (+) USD 50 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				Long/Short Equity, Credit and Relative Value, Convertible Arbitrage		Relative value alternative UCITS funds have beaten bond/credit indices since the start of 2023, offering lower risk returns, at low volatility.
INFRA STRUCTURE	+	+		Energy, transportation, water		Excellent long-term returns expected from private and listed infrastructure given long-term underinvestment.

Economic, FX forecast tables

BNP Paribas Forecasts			
GDP Growth %	2024	2025	2026
United States	2.8	2.0	1.8
Japan	0.1	1.3	0.6
UK	1.1	1.3	1.0
Switzerland	1.0	1.5	1.0
Eurozone	**0.8**	**1.3**	**1.4**
Germany	-0.5	0.3	1.4
France	1.1	0.7	1.1
Italy	0.5	0.6	1.1
Emerging			
China	5.0	5.0	4.5
India*	6.5	6.2	6.4
Brazil	3.4	2.3	1.6

* Fiscal year

Source : BNP Paribas - 29/09/2025

BNP Paribas Forecasts			
CPI Inflation %	2024	2025	2026
United States	2.9	2.8	3.2
Japan	2.7	3.2	2.5
UK	2.5	3.5	2.7
Switzerland	1.1	0.2	0.8
Eurozone	**2.4**	**2.1**	**1.8**
Germany	2.5	2.2	1.3
France	2.3	1.0	1.2
Italy	1.1	1.7	1.5
Emerging			
China	0.2	0.0	1.0
India*	4.7	3.2	4.4
Brazil	4.4	5.1	4.4

* Fiscal year

Source : BNP Paribas - 29/09/2025

	Country	Spot 29/09/2025		Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1.17	1.16	1.24
	United Kingdom	EUR / GBP	0.87	0.87	0.87
	Switzerland	EUR / CHF	0.94	0.94	0.94
	Japan	EUR / JPY	174.35	168	174
	Sweden	EUR / SEK	11.05	11.00	10.70
	Norway	EUR / NOK	11.70	11.60	11.30
Against dollar	Japan	USD / JPY	148.64	145	140
	Canada	USD / CAD	1.39	1.38	1.35
	Australia	AUD / USD	0.66	0.66	0.68
	New Zealand	NZD / USD	0.58	0.60	0.60
	Brazil	USD / BRL	5.32	5.40	5.70
	India	USD / INR	88.77	88.0	88.0
	China	USD / CNY	7.12	7.15	7.10

Source: BNP Paribas, Refinitiv Datastream. As at 30 September 2025

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