

Equity Focus Kissed By The Muse

Summary

1. **It Takes Two To Tango** – rising yields have not weighed on equities. This may look counterintuitive at the first glance but can be explained by superior earnings growth. If earnings outgrow rates, equities remain attractive. We also don't see evidence of large reallocations into bonds. **We remain overweight equities. Continuous upward revisions to EPS growth forecasts are a key pillar of the bull market.**
2. **Kissed By The Muse** – Earnings momentum in the US remains exceptionally strong as the AI infrastructure buildout is increasingly met by rising demand from corporate and private users. **We upgrade US equities and Information Technology to overweight and recommend fading US large-cap and Hyperscalers underweights.** The combination of emerging (Agentic) AI monetization avenues, resilient business models, and solid earnings/improving cash flows at hyperscalers has bolstered our confidence in their expected free cash flow (FCF) recovery (likely within 12-24 months).
3. **We turn neutral on US small versus large caps and no longer prefer the equal-weighted S&P 500 over its cap-weighted counterpart.**
4. **Europe- The Weakest Link** - While the headwinds for European equities remain plentiful, tailwinds are harder to find. We downgrade European equities to underweight not because we're outright bearish but because we feel it is the weakest link in our coverage and is most likely to trail global peers. At this point, Europe remains a place for stock picking, not for owing broad market exposure
5. **European banks are downgraded to Neutral and European Technology is upgraded to Overweight** - rising inflation, yields and political issues could hurt banking businesses and push investors to book some profits. Wait for a more stable environment before re-entering European banks and/or buy on dips.

Stephan Kemper

Chief Investment Officer
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Alain Gérard, MSc, MBA

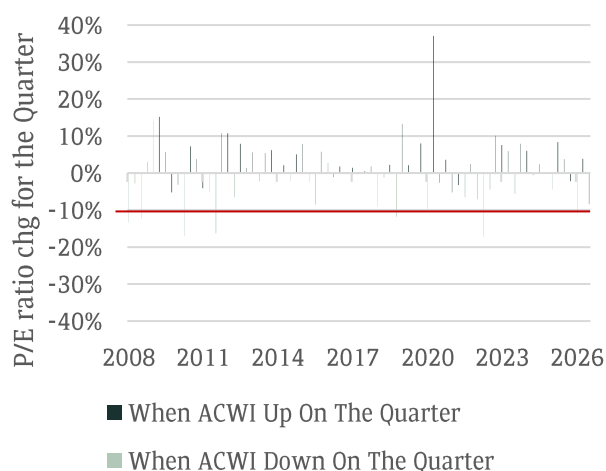
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CHART 1: STOCKS RARELY GET CHEAPER WHEN THEY RISE



Source: BNP Paribas, Bloomberg



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It Takes Two To Tango

"Everything we see is a shadow cast by that which we do not see." (Martin Luther King jr.)

One of 2026's more remarkable outcomes is that equities have rallied alongside rising yields. Yet global equities are up about 13% even as the US 10-year Treasury yield has climbed 100bp. These figures sit in an uneasy tension. Higher bond yields both increase the returns available elsewhere and the discount rate applied to future profits, theoretically reducing equity valuations. But it takes two to tango. Under the Gordon Growth model, a stock's value equals expected dividends (D) divided by $r - g$, where r is the required return and g is growth. Higher rates raise r and weigh on valuations; however, stronger growth lifts g and works in the opposite direction. The key is not r alone, but the gap between the two.

The equation is algebraic, but psychology still matters. When rates rise amid strong market conditions, investors may increase their expectations for future growth, g , even faster. We believe that is exactly what has happened. Using the US 10-year yield as the best global proxy for the risk-free rate (r), earnings growth (g) has been stronger in every region except Europe, where year-to-date EPS growth has lagged the rise in Treasury and Bund yields (Chart 2).

A resilient equity risk premium

Had you told investors on January 1 that the S&P 500 would gain 13% while the US 10-year yield rose 100bp, they would reasonably have expected the equity risk premium (ERP) to fall significantly. But strong earnings have kept the gap between the S&P 500 earnings yield and Treasury yields, despite the recent drop, broadly unchanged year-to-date (Chart 3).

Earnings, not multiple expansion, are driving this year's gains.

Are higher rates prompting investors to reallocate?

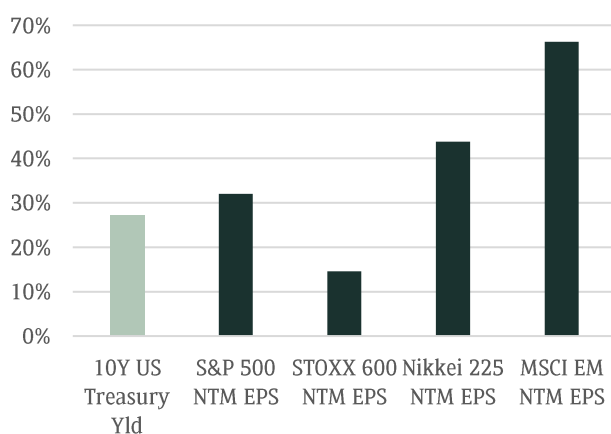
Today's higher-yielding bonds are highly liquid and accessible to global investors. Whatever relative valuations imply on paper, investors selling equities or other assets to buy bonds would show that the yield advantage is compelling enough to change allocations.

So far, however, there is little evidence of such a shift. ETF flows, a useful gauge because they respond quickly, remain positive for US equities and have already surpassed last year's inflows (Chart 4). Moreover, bonds and equities have generally moved in the same direction, showing positive correlation—the opposite of what we would expect if investors were shifting meaningfully from one to the other (Chart 5).

Don't fear the Mid-Terms

Another reason which worries investors and appears to keep sentiment low (Charts 6 + 7) are the upcoming US mid-term elections. While the outcome could trigger increased volatility at a sector level, history suggests that equities are only impacted for a limited period. Since 1950, the S&P 500 gained an average of 16.7% in the 12 months following the mid-terms and was higher on every occasion (Chart 8). Moreover, seasonality is changing from a headwind to a tailwind with October being the strongest month in a mid-term year on average (Chart 9). This supports our equity overweight thesis and – alongside further AI tailwinds – our upgrade of US equities to overweight.

CHART 2: G BEATS R – EARNINGS ARE RISING FASTER THAN RATES



Source: BNP Paribas, Bloomberg

CHART 3: DESPITE THE RECENT SETBACK, THE ERP HELD UP REMARKABLY WELL

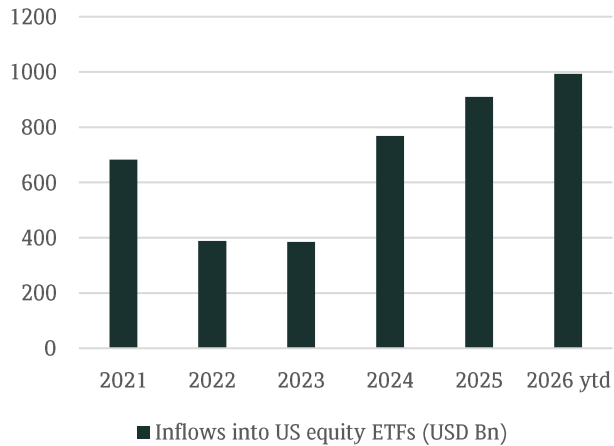


Source: BNP Paribas, Bloomberg

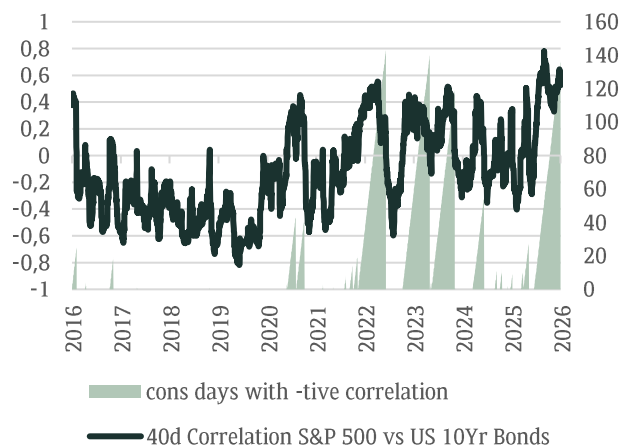


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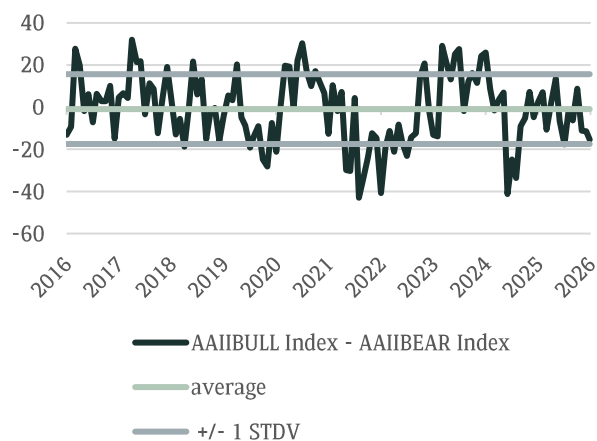
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CHART 4: FLOWS INTO US EQUITY ETFs REMAIN STRONG

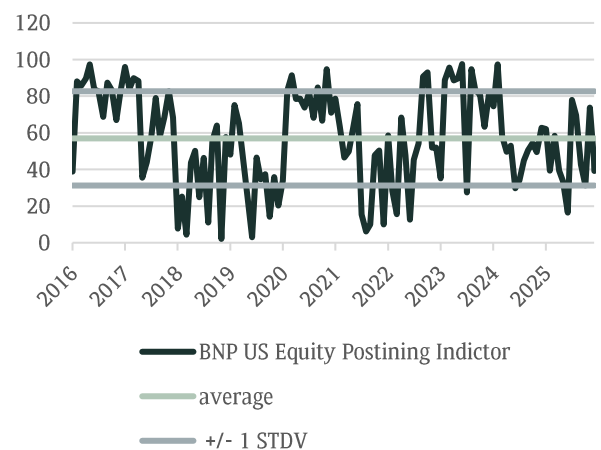
Source: BNP Paribas, Bloomberg

CHART 5: A FIRMLY POSITIVE EQUITY-BOND CORRELATION INDICATES NO SWITCHES

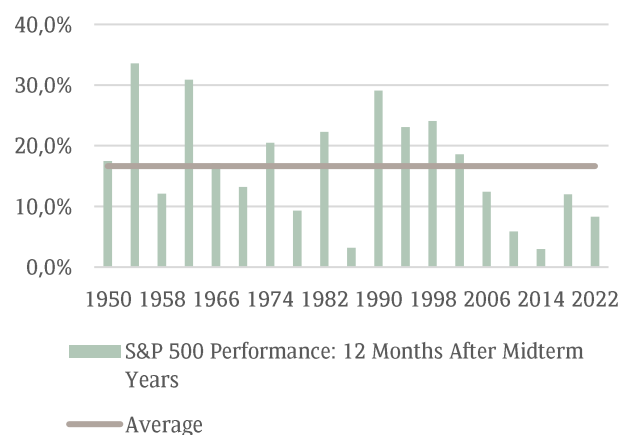
Source: BNP Paribas, Bloomberg

CHART 6: SENTIMENT AMONG RETAIL INVESTORS REMAINS SUBDUED...

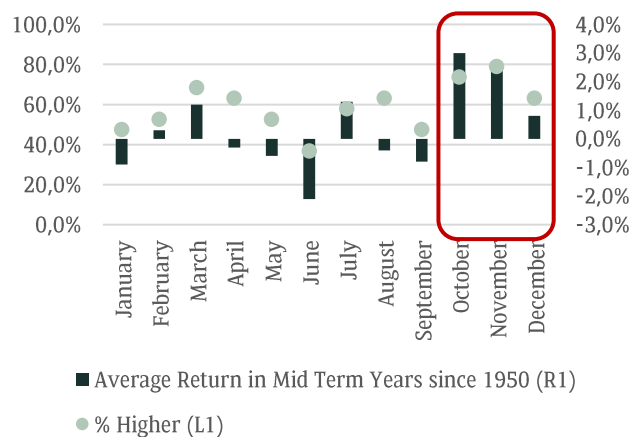
Source: BNP Paribas, Bloomberg

CHART 7: ... AND OVERALL POSITIONING IN US EQUITIES IS RATHER LIGHT

Source: BNP Paribas, Bloomberg

CHART 8: S&P WAS UP 12 MONTHS AFTER EACH MID-TERM ELECTION SINCE 1950

Source: BNP Paribas Bloomberg

CHART 9: SEASONALITY TURNS INTO A TAILWIND FOR EQUITIES

Source: BNP Paribas, Bloomberg


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Kissed By The Muse – Upgrading US Equities To Overweight

“Opportunities multiply as they are seized.” (Sun Tzu)

Earnings momentum in the US remains exceptionally strong. Revisions of earnings growth for 2026 since January 1st are the second strongest within the last 15 years (Chart 12). This optimism among investors is fueled by ongoing optimism among companies. As we enter the Q3 earnings season, 116 S&P 500 constituents have issued EPS guidance. Out of these companies, 62% (72 out of 116) have issued positive guidance which scores well above the 5-year (40%) and 10-year (41%) average. Looking into sectors, Technology is leading with 44 upgrades, almost double the 5-year average (Charts 10 & 11). Overall, EPS for the S&P 500 is expected to grow by ~35% yoy in Q3 which, if realized, would mark the 3rd consecutive quarter with earnings growth above 30% and the 8th consecutive quarter with double digit earnings growth (Chart 13).

A key driver of earnings remain Artificial Intelligence. The S&P 500 ex AI has decoupled from the S&P 500 alongside slower EPS growth expectations (Charts 14 & 15). However, looking at ongoing strong PMI data, we think that it is more likely that we will see non-tech catching up higher rather than the other way around. Our commodity strategist continues to expect oil prices (Brent) to decline to USD65/barrel within 12 months, allowing the Fed to follow a less aggressive hiking path. Our two expected rate hikes are still well below the current market pricing of c. 3.5 hikes by December 2027. Taken with our 12-month US 10-year yield forecast of 4.75%, we think the market is currently too pessimistic about the prospects of Corporate America as a whole.

Rates are a small (cap) problem

Rising rates are thus far having only a small impact on the rates burden of corporates at least when looking at net interest payments as a % of US-GDP (Chart 16). This is mainly due to a lot of long-term borrowing by companies during the low-rate era. Thus, interest rate expenses as % of revenues for companies within the S&P 500 have barely moved. The same cannot be said about small caps. Since 2022, the interest rate burden has risen constantly as small caps rely much more on short-dated debt than their larger peers (Charts 17 & 18). Thus, the Russell 2000 historically fell around 10% during the first weeks after a Fed rate hike (Chart 19). Since the relative performance of the Russell 2000 vs the S&P 500 has so far defied the move in rates (Chart 20), we see a high risk of major underperformance going forward.

We upgrade US equities and, globally, Technology to overweight and recommend reducing US large-cap underweights. We turn neutral on US small versus large caps and no longer prefer the equal-weighted S&P 500 over its cap-weighted counterpart.

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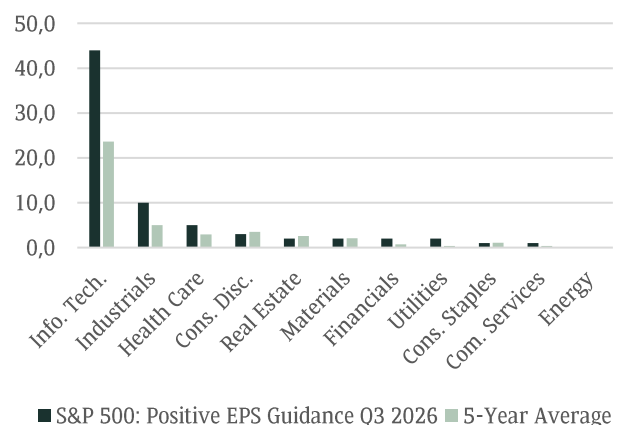
AI remains top of mind for company executives, leading to rising applied AI maturity scores. These scores look to measure AI capabilities of companies and underline a strong acceleration during the last year alongside growing AI-related investment. One factor motivating executives are the expected benefits from solid AI adoption rates on revenues and costs (Charts 20 & 21).

CHART 10: GUIDANCE UPGRADES ARE STRONG AS WE HEAD INTO Q3 EARNINGS



Source: BNP Paribas, Factset

CHART 11: TECHNOLOGY IS DRIVING UPGRADES ON THE SECTOR LEVEL

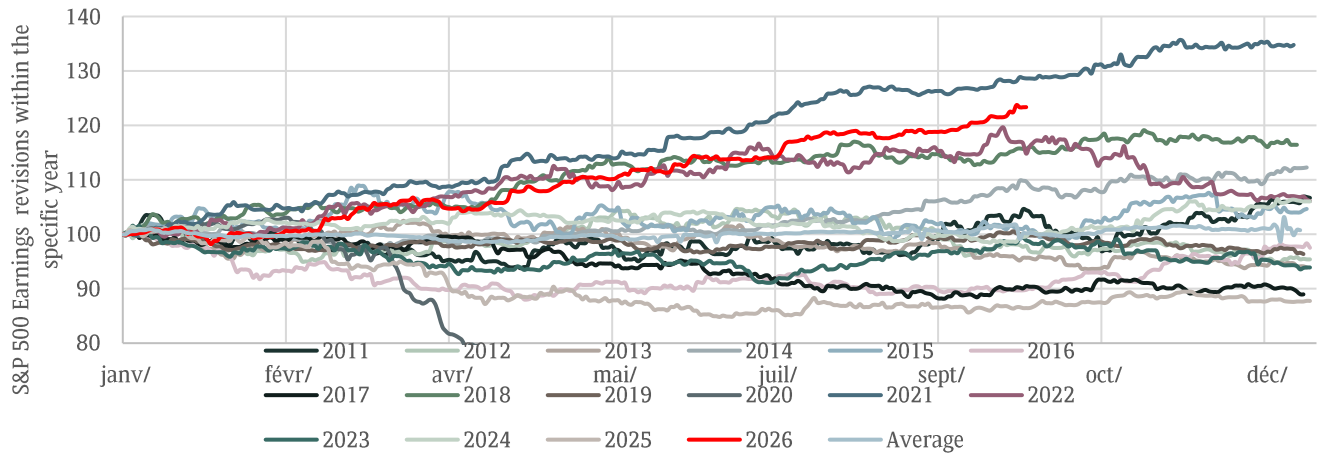


Source: BNP Paribas, Factset

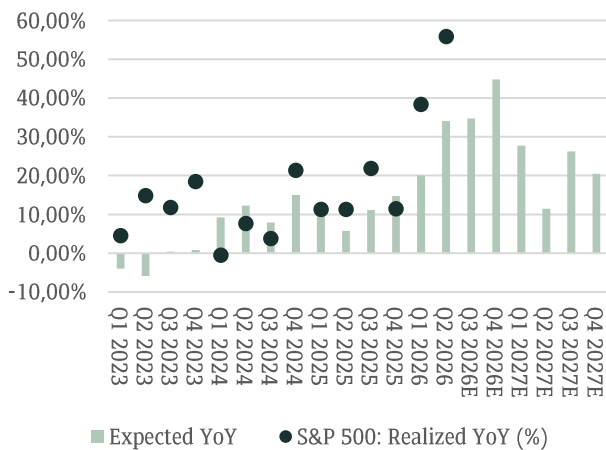


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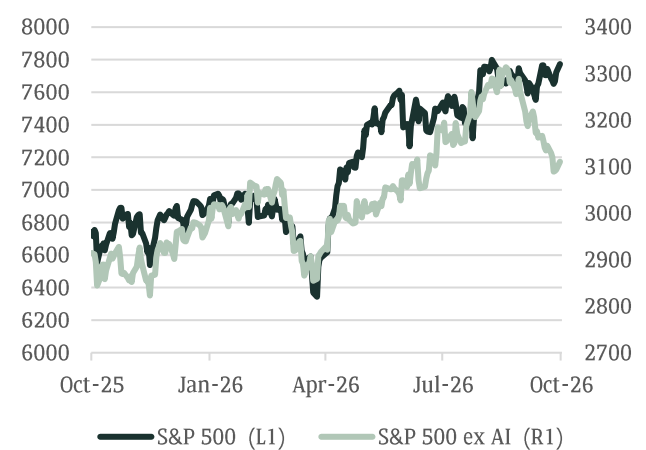
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CHART 12: YTD EARNINGS REVISIONS FOR THE S&P 500 ARE AMONG THE STRONGEST SINCE 2011

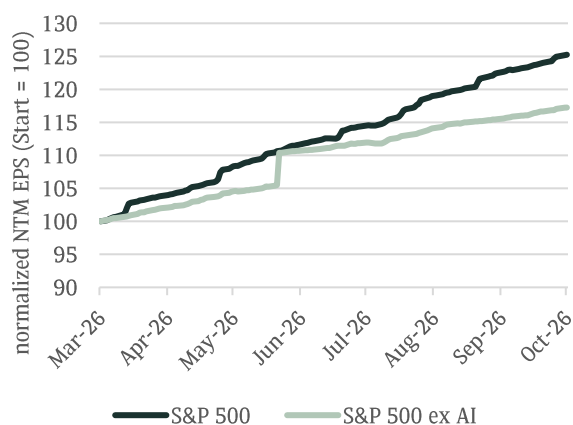
Source: BNP Paribas, Bloomberg

CHART 13: S&P 500 EARNINGS GROWTH IS EXPECTED TO REMAIN STRONG

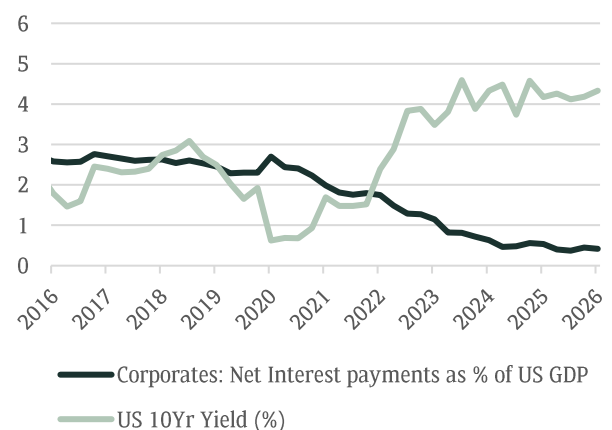
Source: BNP Paribas, Bloomberg

CHART 14: NON-AI EXPOSED AREAS RECENTLY UNDERPERFORMED...

Source: BNP Paribas, Bloomberg

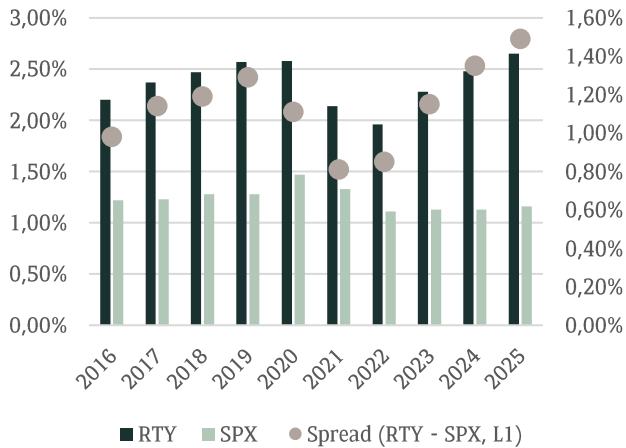
CHART 15: ...AS EPS GROWTH EXPECTATIONS LAGGED

Source: BNP Paribas Bloomberg

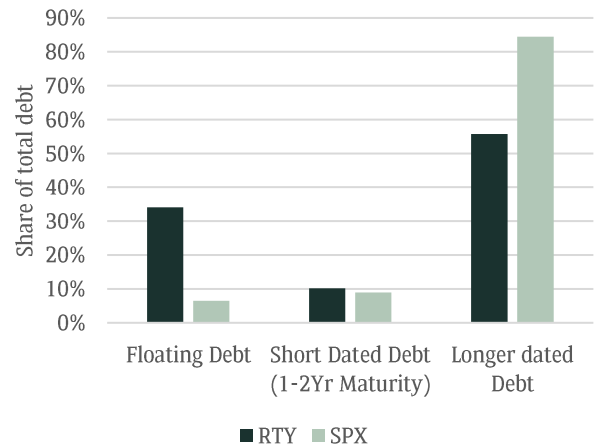
CHART 16: INTEREST PAYMENTS TOOK LITTLE NOTICE OF RISING YIELDS

Source: BNP Paribas, Fred

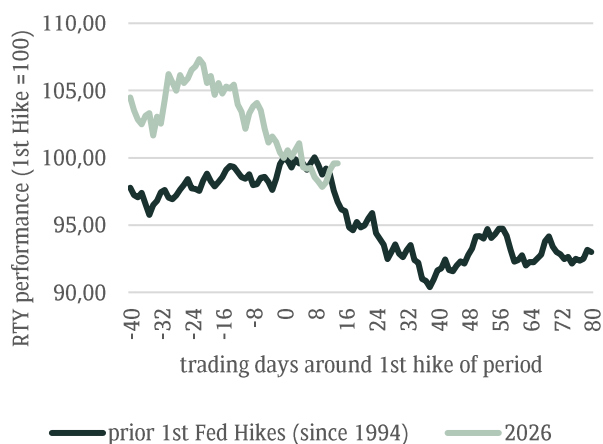

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CHART 17: RISING RATES ARE MAINLY A SMALL (CAP) PROBLEM

Source: BNP Paribas, Bloomberg

CHART 18: SMALL CAPS ARE MORE EXPOSED TO SHORT TERM FINANCING

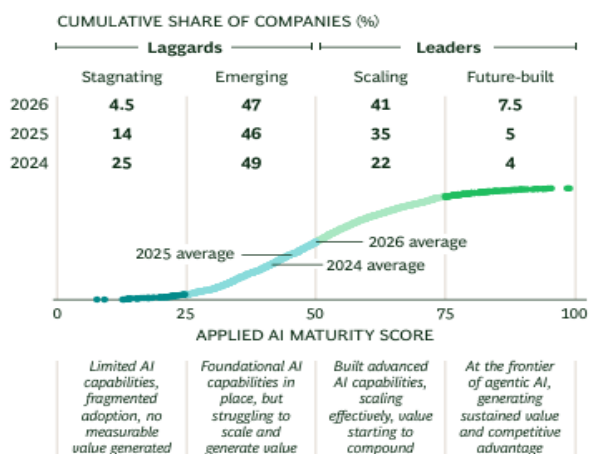
Source: BNP Paribas, Bloomberg

CHART 19: THE RUSSELL 2000 TENDS TO FALL AFTER THE 1ST FED HIKE

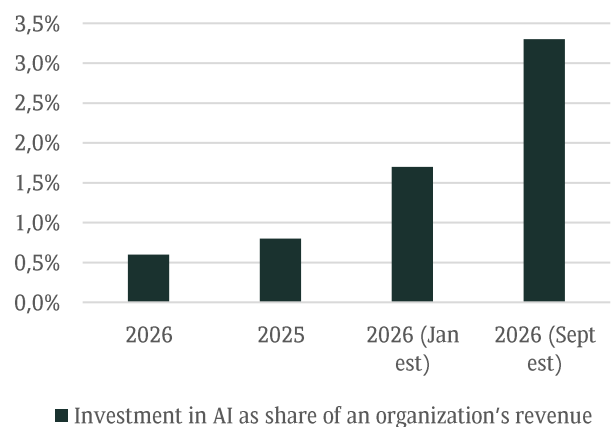
Source: BNP Paribas, Bloomberg

CHART 20: HIGHER YIELDS ARE PRESSURING RECENT RUSSELL OUTPERFORMANCE

Source: BNP Paribas, Bloomberg

CHART 21: THE BCG AI MATURITY SCORE IS RISING

Sources: Applied AI Index 2026 (n = 1,330); Financial metrics reported from Capital IQ and Orbis.

CHART 22: AI SPENDING KEEPS GOING UP

Source: BNP Paribas BCG

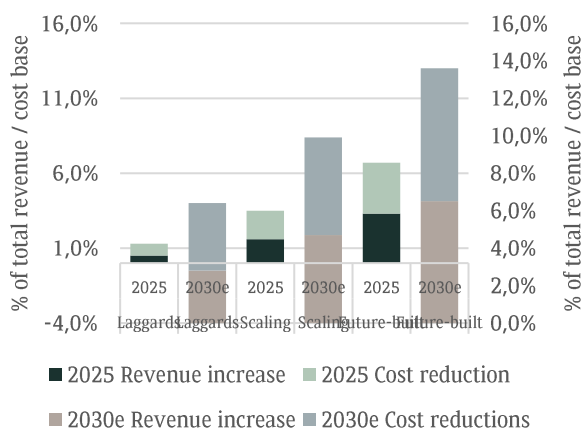

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Transiting from the laggard cohort in 2025 into the future-built cohort in 2030 can amplify the positive effects from AI on costs and revenue by a factor of 10 (Chart 23). Those efforts are also increasingly appreciated by the market as the stocks of companies talking about AI in their earnings calls materially outperformed both in Q2 2026 and year-to-date (Chart 24). This strengthens our case for remaining positive on AI infrastructure names as rising revenues should maintain AI buildout momentum.

Another driver of growing demand for compute – and everything related to it, ranging from power to datacenters – is the rising use of Agentic AI. By 2030, the share of Agentic AI is expected to rise by c. 77% vs 2026 (Chart 25). This is important as AI agents use exponentially more tokens than non-agentic AI. Agentic workloads can [consume roughly 100 times](#) more tokens than conversational chat interactions. This increase is driven by the complexity of planning, memory requirements, and tool orchestration. Token usage data from openrouter.ai confirms this observation as Agentic AI strongly outgrew human token usage (Chart 26).

Agentic AI won't be limited to corporate usage though. The recent launch of Meta's "muse" is a major achievement in private agentic AI usage. The app quickly climbed the ranks in App stores and reached 5 million downloads within 22 days. For reference, it took ChatGPT 56 days to reach the same number of downloads. While this success lifted Agentic related sectors exposed to the agentic AI buildout – infrastructure, (cybersecurity) software, and enablers that benefit from AI agents replacing or augmenting human workflows – it is perceived as a disruptive force for others (Chart 27).

CHART 23: THE BENEFITS FROM EMPLOYING AI ARE RISING



Source: BNP Paribas, BCG

Goodbye inertia?

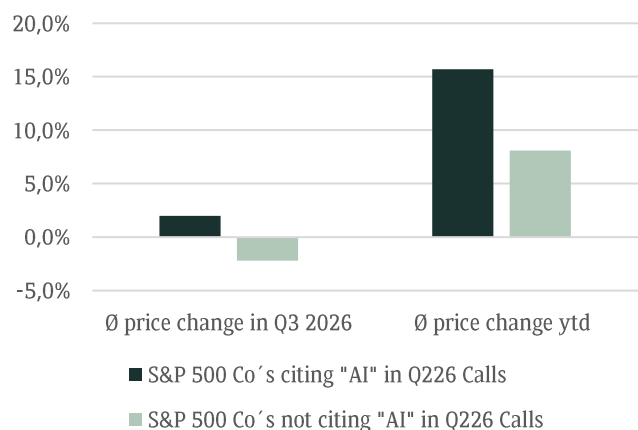
AI agents improve price comparison, trip booking and dealing with customer service interactions. Hence, industries that rely on recurring bills, negotiable pricing and add-ons are facing increasing pressure. Historically, customers are rarely revisiting their existing contracts, a phenomena called "consumer inertia". As AI agents are now able to renegotiate contracts and switch/cancel services, it might get harder for companies to benefit from "lazy" consumers.

Since its launch, there were no shortage of Muse posts in social media on how to lower and cancel a subscription service that has sat idle for months. To what extent this will have a notable impact on earnings needs to be monitored though. Thus far, only a limited share of consumers said they would be comfortable with AI choosing and purchasing things on their behalf while 42% of the respondents declared that they would not trust AI to make purchases on their behalf (Chart 28). The same survey also revealed that AI is becoming increasingly important in selecting products (Chart 29). This confirms the potential positive revenue impact of AI advertisement for vendors which we discussed [here](#).

Japan – remaining a key AI call

The definition of an "AI-related stock" has broadened considerably in recent years. The AI theme now extends far beyond processors and semiconductor equipment to include optical interconnects, power and cooling infrastructure, robotics, and applications. Japan is home to many leading companies in this space and is well poised to benefit from the broadening of the theme. We reiterate our overweight rating, preferably played via the Nikkei 225 due to its higher AI exposure (Chart 30).

CHART 24: TALKING ABOUT AI IS WELL RECEIVED BY INVESTORS

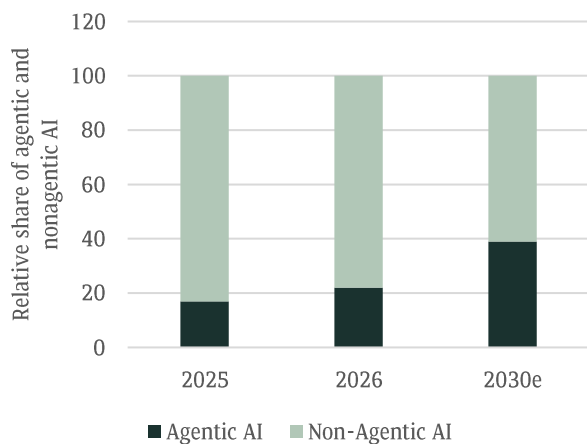


Source: BNP Paribas, Factset

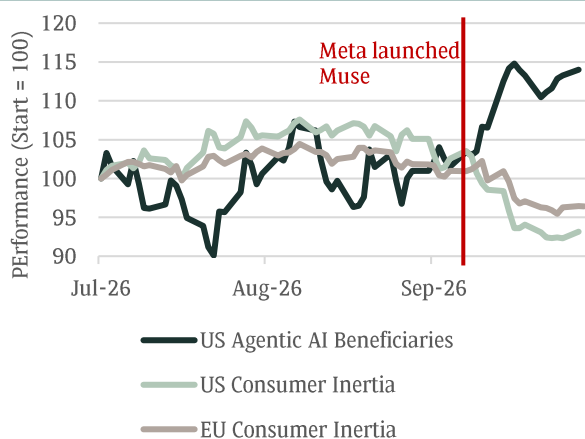


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CHART 25: THE USE OF AGENTIC AI IS EXPECTED TO GROW STRONGLY

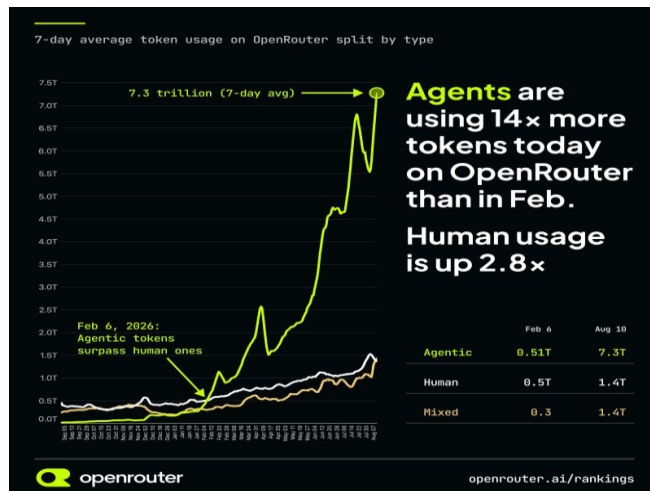
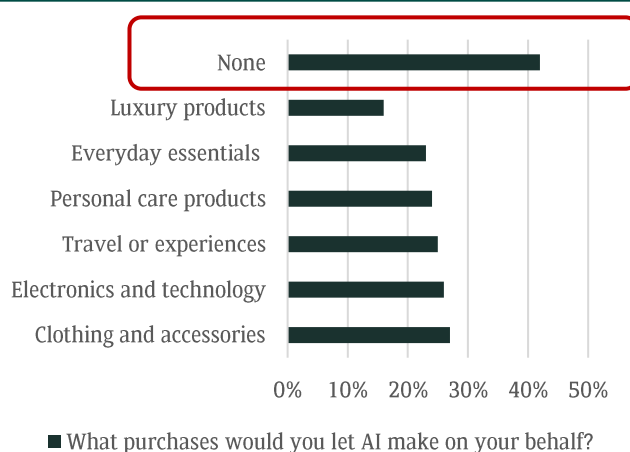
Source: BNP Paribas, BCG

CHART 27: THE LAUNCH OF MUSE EXPLORED NEW DISRUPTION RISKS

Source: BNP Paribas, Bloomberg

CHART 29: AI IS APPRECIATED AS ADVISOR AND DEAL FINDER

Source: BNP Paribas Statista

CHART 26: AGENTIC AI IS A KEY DRIVER FOR TOKEN USAGE**CHART 28: WOULD YOU LET AI CLICK "BUY NOW"?**

Source: BNP Paribas, Statista

CHART 30: THE NIKKEI 225 IS THE BETTER WAY TO INVEST IN "JAPANESE" AI

Source: FactSet, Goldman Sachs Global Investment Research


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Europe – the weakest link

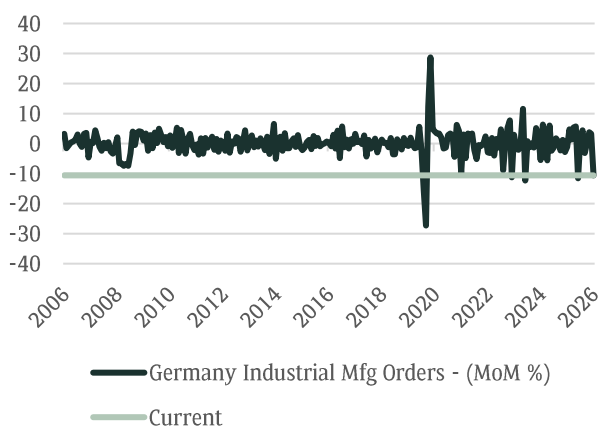
Europe continues to suffer from a variety of headwinds. Energy prices remain high and will most likely keep weighing on consumption and corporate margins. Moreover, water levels in the river Rhine continued to fall in the recent weeks due to a lag of rain. At the time of writing, no ships can pass Kaub, a critical chokepoint in south-western Germany. This will have a negative impact on manufacturing, as we discussed [here](#). We therefore believe that the decline in industrial orders of 10,6% in August might be only a harbinger of more weakness to come (Chart 31).

Another factor weighing on European equities are increasing bond yields and spreads against German bunds because of growing political risks in several countries of the Eurozone (Chart 32). Financials, which are holding a decent amount of those bonds, are suffering as a result and are turning from market leaders to market laggards (Chart 33).

While the headwinds for European equities remain plentiful, tailwinds are harder to find. The region lacks the structural exposure to AI infrastructure which we find elsewhere. The main argument in favor of Europe seems to be the price. Despite the rerating over the last 18 months, the region's valuation remains below its long-term average ratio to global stocks (Chart 34). Even if we discount for some potential earnings disappointments, this should provide some cushion against a major drawdown.

We downgrade European equities to underweight not because we are outright bearish but because we feel it is the weakest link in our coverage and is most likely to trail global peers. At this point, Europe remains a place for stock picking, not for owing broad market exposure.

CHART 31: INDUSTRIAL ORDERS IN GERMANY COLLAPSED



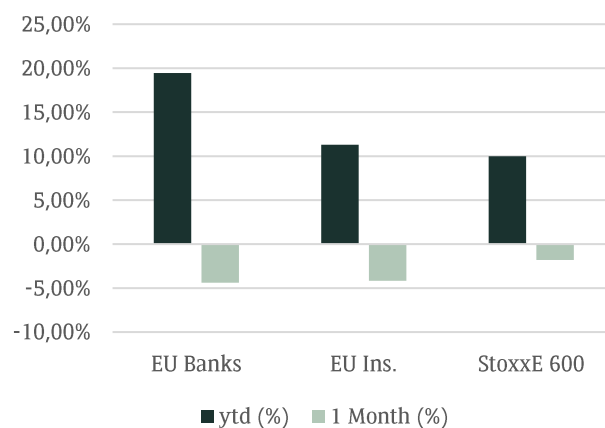
Source: BNP Paribas, Bloomberg

CHART 32: GOVERNMENT BOND SPREADS IN EUROPE ARE RISING



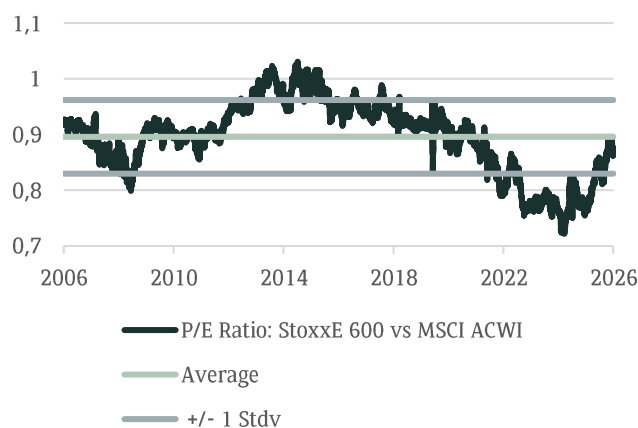
Source: BNP Paribas, Bloomberg

CHART 33: FINANCIALS ARE SUFFERING FROM HIGHER SPREADS



Source: BNP Paribas, Bloomberg

CHART 34: VALUATION REMAINS A KEY CUSHION FOR EUROPEAN STOCKS



Source: BNP Paribas, Bloomberg



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US and Europe Equity Performances and Sector re-positioning

US equities: breaking new ground

The US tech sector kicked off 2026 strongly but paused for consolidation over the summer. Meanwhile, broader market leadership rotated, with the S&P 500 hitting fresh all-time highs in August before moving sideways again.

Key headwinds—rising oil prices, climbing bond yields, and seasonal weakness—weighed on sentiment. While Q2 earnings were exceptionally robust, investors grew cautious, questioning whether the rally had fully priced in positive developments. Yet, the US economy continues to defy expectations, displaying resilience and relatively controlled inflation, while corporate earnings forecasts keep trending upward.

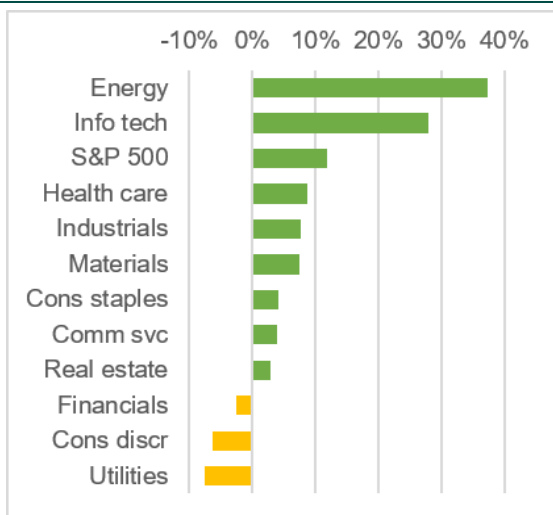
Now, US equities have regained momentum, propelled by strong tech-sector fundamentals: companies across the board are upwardly revising revenue, earnings, and cash flow guidance, reigniting bullish sentiment.

The launch of new monetizable agentic AI assistants—such as Meta's Muse, ChatGPT Dots, and consumer-focused Copilot upgrades—has fed the momentum in the tech sector (cf. Meta Platforms gaining +26,7% in September).

Information Technology and Communication Services each advanced c. 4% in September (the only US sectors in positive territory), while the S&P 500 dipped -0.45% over the month. Healthcare (-1%) and Energy (-2.8%) fared best among laggards.

Year-to-date, the S&P 500 remains up +11.8%, led by Energy (+37.4%), Information Technology (+27.9%), and Healthcare (+8.8%).

CHART 35 : US SECTOR PERFORMANCE (AS OF 30TH OF SEPT.): ENERGY, IT AND HEALTH CARE LEADING; FINANCIALS, CONSUMER DISCR. & UTILITIES AT THE BOTTOM.



Source: S&P 500, 2026 performances as at 30th of Sept. 2026.



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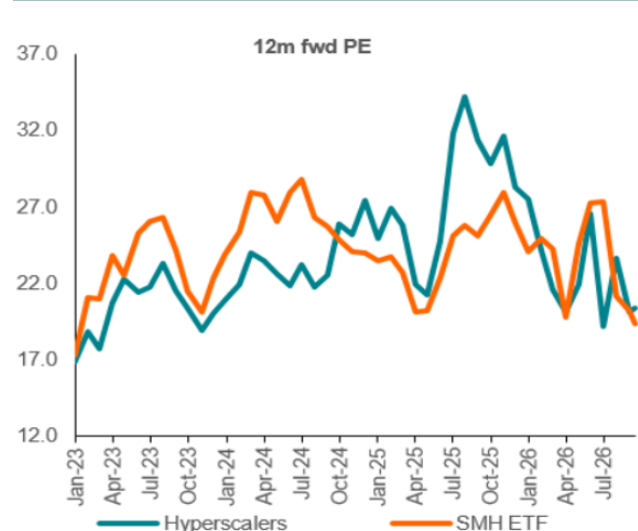
Global Overweight on Information Technology

The combination of emerging (Agentic) AI monetization avenues, resilient business models, and solid earnings/improving cash flows at hyperscalers has bolstered our confidence in their expected free cash flow (FCF) recovery. **As a result, we are fading our hyperscalers' underweight recommendation, particularly as valuations now sit at the lower end of their range (Chart 36). That said, we advocate a selective approach: focus on names with robust balance sheets and clear pathways to rising FCF generation.**

Semiconductors remain attractive, now also trading at compelling valuations. Combined with opportunities in tech hardware, cybersecurity, software and services (strong recovery of this sub-sector since mid-July), **we are upgrading US Information Technology from Neutral to Overweight.** For other tech-exposed sectors like Communication Services and Consumer Discretionary, we maintain a Neutral stance due to disruptive pressures—e.g., SpaceX's telecom push, US firms facing stiff Chinese competition in discretionary goods, etc. In Europe, tech indices have also broken out to new highs. Given their strong outlook, **we are also upgrading our rating on European tech from Neutral to Overweight.**

Globally, we recommend an Overweight on IT as we also like Japanese, South Korean, Taiwanese and some parts of Chinese tech. Note, however, that Korea faces short-term headwinds from renewed geopolitical tensions and potentially new Chinese competition in memory chips.

CHART 36 : HYPERSCALERS' VALUATIONS AT THE BOTTOM OF THEIR RANGE WHEREAS EARNINGS ARE STILL EXPECTED TO GROW STRONGLY. SAME FOR SEMICONDUCTORS.



Source: BNP Paribas Equity Research, Bloomberg

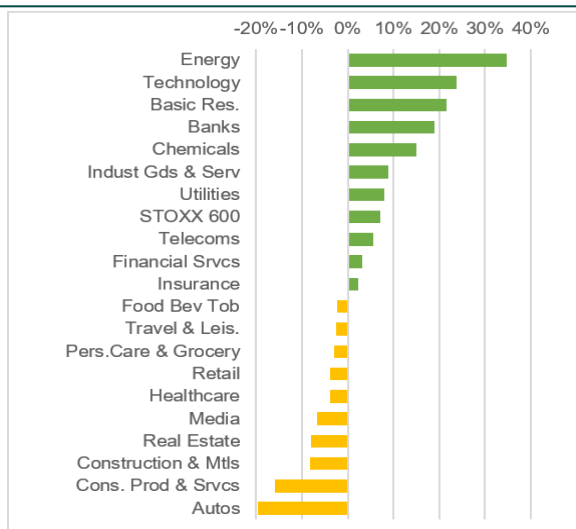
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Europe Falling Behind: Structural Weaknesses Weigh on Performance

Over the past few years, Europe has followed a frustratingly consistent pattern: a promising start to the year, only to lose momentum as global trends shift. In 2026, this dynamic has repeated itself, with European markets now lagging other regions. The root causes are clear: the continent remains underexposed to the AI and technology themes driving global growth, while persistently high energy and labour costs continue to undermine industrial competitiveness. Adding to these challenges, resurgent inflation and rising bond yields and a sharp widening in the spread between French OATs and German Bunds, reflecting heightened market stress. Given these headwinds—both structural and cyclical—we anticipate that European equities will struggle to outperform. Against this backdrop, **we are downgrading the European banking sector from Overweight to Neutral, despite its undemanding valuation (forward P/E of 10.2x).** The current uncertainties and profit-taking pressures—after years of strong performance (cf. chart 38) — lead us to a more cautious stance.

In September, only Energy (+2.8%) and Technology (+2%) ended the month in positive territory. On a YTD basis, Energy (+34.7%), Technology (+23.8%), Basic Resources (+21.7%), and Banks (+18.9%) remain the top performers (chart 37). **Currently, we favour sectors displaying solid earnings, robust order books, pricing power, and improving cash flows— cf. upgrade of US and European IT to OW.** Conversely, high(er) interest rates and energy prices could weigh on economic/ lending activity, leading us to tactically downgrade EU banks from OW to N.

CHART 37 : EU SECTOR PERFORMANCE (AS AT 30TH OF SEPT.): AI RELATED SECTORS, ENERGY, BASIC RES. & BANKS LEAD; CONSUMER RELATED & DEFENSIVE SECTORS LAG



Source: Stoxx600, 2026 performances as at 30th of Sept. 2026.



BNP PARIBAS
WEALTH MANAGEMENT

Q3-26 Earnings Outlook – Information Technology expected to deliver a whopping +67% EPS growth!

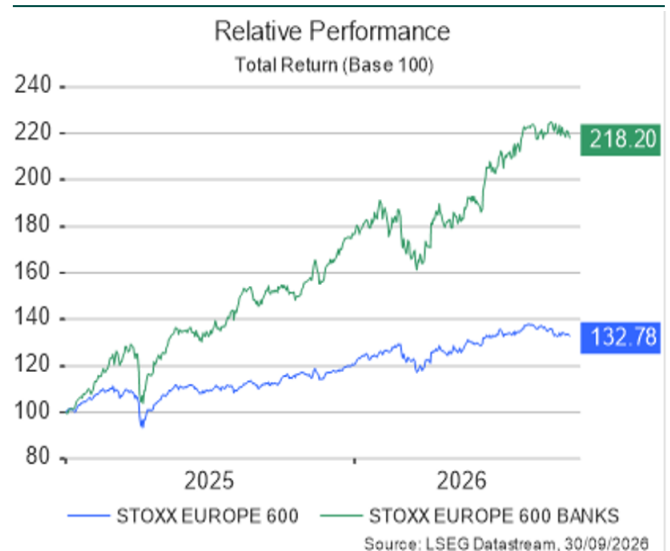
Major equity markets have reached new highs this year. But the real story lies in their fundamentals: earnings growth has significantly outpaced price appreciation, resulting in more attractive valuations (chart 1). As a reminder, S&P 500 2026 EPS is expected to rise by +30% whereas the index has progressed by 'only' +11.8% this year, diminishing its forward P/E to a reasonable 19x.

Even more striking is the projected earnings growth of the Mag-7: +52% whereas non-tech stocks should grow EPS by +22% in 2026. Meanwhile, Europe and Japan are forecast earnings growth of slightly over 15%, with China trailing behind. The most notable outperformance, however, is expected in emerging markets, where earnings are projected to surge by +67%, largely fueled by the strong contributions of South Korea and Taiwan.

For Q3-2026, analysts' consensus forecasts close to +30% earnings growth in the US. Revenues are expected to rise by an exceptionally high +12%, led by IT's +40% forecast increase. As usual, hyperscalers' results - their (expected) cash flows in particular - will be closely scrutinized, given their pivotal role in both the AI-driven capex boom and overall US earnings growth.

The IT sector is poised to deliver an exceptional earnings growth of +67%. By comparison, non-tech sectors are projected to grow EPS by +22%. Consumer-related sectors will likely report the weakest performance (+3%). In Europe, Q3 EPS growth is forecasted at +22%, once again driven by Energy, Financials, Industrials and Technology.

CHART 38 : GIVEN THE RECENT RALLY, WE RECOMMEND WAITING FOR A MORE STABLE ENVIRONMENT OR A PULLBACK BEFORE RE-ENTERING EUROPEAN BANKS.



Source: LSEG Datastream, 30/09/2026

The bank
for a changing
world

European and US Sectors in a nutshell

Sector (STOXX Europe 600)	View			YTD (24 Aug)	Out/ underperf. vs index	Our view at a glance
	UW	N	OW			
Health Care			X	-3,89%	-11,10%	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	8,87%	1,66%	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. Higher energy prices could hurt profits in some instances.
Technology		→	X	23,76%	16,55%	Solid Q2-26 results & perspectives, supported by new AI developments. Software & services lagging considering the risk of business loss to AI (although certain companies are integrating AI quite well in their solutions).
Utilities			X	7,91%	0,70%	European infrastructure spending and energy independence willingness are tailwinds, whereas (green and AI-related) power demand continues to grow. However, higher bond yields and energy prices have been hurting.
Auto & Parts			X	-19,52%	-26,73%	Automotives still weak due to intense competition with China, high EV investment costs and energy prices. However, a more supportive European Union and the ongoing restructuring could stabilize this industry.
Banks		←	X	18,86%	11,65%	Cheap valuations (avg fwd P/E around 10,4) and solid balance sheets. New business opportunities. However, rising inflation, yields and political issues could hurt banking businesses and push investors to book some profits. Wait for a more stable environment before re-entering this sector and/ or buy on dip.
Basic Resources			X	21,67%	14,46%	We have recommended energy transition commodities (huge needs due to AI & energy independence) and precious metals (cf. geopolitics) for a long time. Watch also metals/ rare earths necessary for (electronic) defense.
Chemicals			X	14,93%	7,72%	The sector should profit from EU infrastructure plans as well as from some end markets revivals. Competition from China, overcapacity, tariffs and other trade issues are headwinds , except for some fertilizer and other chemical companies benefiting of the tensions in the Hormuz strait.
Construction Materials			X	-8,20%	-15,41%	(German) infrastructure and energy efficiency spending are catalysts for some. On the other hand, rebuilding Ukraine theme still looks distant. Energy prices have been a headwind for other companies. Be selective.
Cons. Products and Services			X	-15,88%	-23,09%	The sector has suffered from tariffs, elevated fuel prices and geopolitical uncertainties. Globally, some end markets are recovering now (i.e. the USA, some Asian markets, high-end luxury). Be selective.
Financial Services			X	3,10%	-4,11%	Latest corporate results were fine but ongoing concerns relating to private credits/ equity businesses and possible AI disruption , i.e. AI startups aiming to automate some fin services' tasks (pressure on revenues and margins).
Insurance			X	2,21%	-5,00%	Solid and rather defensive sector. Cash returns attractive but European insurance now looks fully priced at an avg fwd P/E of 11,9. Also, there is now a risk that some private loans exposure could turn sour. Be selective.
Media Price EUR			X	-6,60%	-13,81%	AI impact has been very negative for the sector as well as Meta Platforms entering and threatening many (European) media and ads businesses. The sector is adapting and somewhat stabilizing now.
Real Estate			X	-8,06%	-15,27%	Defensive sector hit by rising bond yields. However, logistics and data centers still enjoy tailwinds from e-commerce/ AI. Be selective.
Retail			X	-3,80%	-11,01%	The sector has now found some capital discipline allowing for cash distribution. However, higher energy prices and other disruptions are putting pressure on margins.
Telecommunications			X	5,65%	-1,56%	Mix of new business opportunities and threats relating to AI. The sector's free M&A option and EU infrastructure plans are tailwinds. Rising bond yields has hurt the sector performance however.
Travel & Leisure			X	-2,51%	-9,72%	Higher energy prices, travelling issues in some parts of the world, high competition and capacity expansion have been headwinds. But most big airline companies were hedged to a certain degree; adaptation happened relatively fast and high demand has been supportive.
Energy			X	34,69%	27,48%	The sector profits from high and volatile energy prices as well as elevated refining margins. However, it is still at (high) risk of a full reopening of the strait of Hormuz and of overcapacity of production. Medium term, we like renewables, energy infrastructure, equipment and services. Necessity to rebuild and develop new energy sources as some others have become unreliable.
Food, Bev and Tobacco			X	2,30%	3,31%	Sluggish earnings growth and lack of upside catalysts. Favour 'self help' stories.
Personal Care			X	-3,06%	-10,27%	The sector still faces headwinds from rising input costs while consumers are increasingly price sensitive. Valuations still too high. Lack of upside catalysts.

Sector (S&P 500 Level 1)	View			YTD (24 Aug)	Out/ underperf. vs index	Our view at a glance
	UW	N	OW			
Health Care			X	8,75%	-3,02%	Defensive compounder with attractive valuations in a structurally growing market (e.g. demographics, obesity etc). AI to bring more efficiency gains. Negotiations with the US administration (lower drug prices, etc) look more constructive now.
Industrials			X	7,63%	-4,14%	Re-shoring, reindustrialization, defense, AI and other infrastructure (re)development are major tailwinds. But higher energy prices have been a headwind for some.
Information Technology		→	X	27,85%	16,08%	Strong Q2-26 results and perspectives in general, especially at semiconductors. Some sub-sectors such as software and SaaS are however at risk of losing business to AI. New developments in agentic AI are somewhat restoring our confidence in hyperscalers' future ROIs and profitability (cheap segment but be selective among these).
Communication Services			X	3,94%	-7,83%	The sector is dominated by 2 mega tech companies, growing fast, and now regularly raising new debt and equity. The rest of the sector is not cheap and is also facing challenges and opportunities. Be selective.
Consumer Discretionary			X	-6,29%	-18,06%	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	-2,53%	-14,30%	After the recent correction, the sector now looks fairly valued. Deregulation, numerous profitable corporate activities (e.g. big IPOs, M&As) and volatile/ active capital markets are bringing support.
Materials			X	7,54%	-4,23%	Medium term, the sector should generally benefit from reshoring and reindustrialization. In the short term, we prefer stocks with exposure to precious metals, rare earths and metals & mining necessary for (electronic) defense and energy transition.
Real Estate			X	2,75%	-9,02%	Activity is still sluggish in residential RE. New construction activity is still muted. Commercial RE stabilising. Momentum is better at some logistics and specialized REITs.
Utilities			X	-7,65%	-19,42%	Solid growth in power demand due to AI & electrification but there is now a growing risk of more controls or price caps on surging electricity prices in certain American states. Higher bond yields not helping either.
Consumer Staples			X	4,12%	-7,65%	The sector looks fully priced. Costs have risen due to tariffs and higher energy prices. Besides, consumers may continue to "trade down" due to inflation. However, some names exposed to emerging markets, or expected to strongly benefit of AI, have performed relatively well this year.
Energy			X	37,43%	25,66%	The sector profits from high and volatile energy prices as well as elevated refining margins. However, it is still at (high) risk of a full reopening of the strait of Hormuz and of overcapacity of production. Medium term, we like renewables, energy infrastructure, equipment and services. Necessity to rebuild and develop new energy sources as some others have become unreliable.



Valuations

TABLE : GLOBAL INDICES

Index	Level	1yr Range	EPS change 4 weeks (%)				Forward								Equity Risk Premium		Composite		
			EPS	Syr Z-Score		PE Ratio	Syr Z-Score	PB Ratio	Syr Z-Score	Div Yield	Syr Z-Score	ROE	Syr Z-Score	Earnings Yield	Syr Z-Score		Syr Z-Score	vs. ACWI	Syr Z-Score
MSCI ACWI	1142		68,37		0,80	16,71		3,30		2,00		19,02		5,98		0,81		N/A	N/A
MSCI World	4929		263,62		0,97	18,70		3,68		1,66		18,79		5,35		0,17		1,12	
MSCI Emerging Markets	1732		185,22		-0,03	9,35		1,87		4,53		19,91		10,69		5,52		0,56	
S&P 500	7704		382,98		0,63	20,12		4,82		1,15		22,71		4,97		-0,20		1,25	
S&P 500 Equal Weighted	8523		515,07		0,67	16,55		2,98		1,92		16,66		6,04		0,87		0,98	
Russell 2000	2836		102,15		0,08	27,76		0,97		1,96		2,84		3,60		-1,57		1,44	
NASDAQ 100	30479		1208,73		-1,37	25,22		7,93		0,56		30,32		3,97		-1,21		1,66	
MSCI USA Growth	35949		694,93		0,63	27,35		9,91		0,37		34,19		1,93		-3,24		1,86	
MSCI USA Value	18499		303,21		1,84	16,04		3,23		1,94		19,05		1,64		-3,54		0,96	
STOXX Europe 600	640		43,31		0,27	14,79		2,27		3,42		14,94		6,76		3,16		0,85	
STOXX Europe Mid 200	680		47,55		2,55	14,30		1,95		3,62		13,18		7,00		3,40		0,81	
STOXX Europe Small 200	410		29,88		0,12	13,70		1,71		3,59		12,03		7,29		3,69		0,77	
DAX	25464		1602,01		-2,94	15,90		1,95		2,97		11,51		6,29		2,69		0,89	
FTSE 100	10709		838,65		1,41	12,78		2,20		3,56		16,62		7,83		2,47		0,75	
CAC 40	8096		580,76		1,38	13,94		1,87		3,82		13,49		7,17		3,57		0,79	
FTSE MIB	51999		3863,32		0,44	13,46		1,91		4,55		14,49		7,43		3,83		0,77	
Nikkei 225	66364		2929,98		-0,64	22,65		2,83		1,54		12,37		4,42		1,34		1,27	
Hang Seng	24510		2318,33		-1,08	10,57		1,18		3,53		10,96		9,46		7,79		0,59	
*BBG consensus, NOT an official BNP target price																			

*BBG consensus, NOT an official BNP target price

TABLE : EUROPEAN SECTORS

Index	Level	1yr Range	Forward												Composite			
			EPS change 4 weeks (%)				Div Yield				Earnings Yield				Upside to 12M Target Price*	vs. SXXP	Syr Z-Score	
			EPS	Syr Z-Score	PE Ratio	Syr Z-Score	PB Ratio	Syr Z-Score	Div Yield	Syr Z-Score	ROE	Syr Z-Score	Earnings Yield	Syr Z-Score				
STOXX Europe	641		43,31		0,27	14,79		2,27		3,42		14,94		6,76		16%	1,00	
STOXXE 600 Consumer P&S	331		16,04		1,40	20,66		3,19		2,52		15,01		4,84		25%	1,40	
STOXXE 600 Energy	183		18,33		6,47	10,07		1,77		3,86		18,45		9,99		12%	0,69	
STOXXE 600 Food, Bev and Tobacco	187		13,23		0,53	14,11		2,57		4,00		16,67		7,08		19%	0,98	
STOXXE 600 Personal Care	164		11,10		-0,31	14,74		2,93		3,45		18,46		6,78		13%	1,04	
STOXXE 600 Chemicals	1272		64,08		-2,76	19,87		2,15		3,63		10,67		5,04		9%	1,29	
STOXXE 600 Utilities	530		36,44		-0,36	14,59		1,89		4,26		12,50		6,88		13%	0,97	
STOXXE 600 Banks	430		38,55		0,99	11,11		1,52		4,89		14,01		8,97		7%	0,74	
STOXXE 600 Real Estate	119		8,57		-0,62	13,85		0,78		5,76		8,19		7,23		22%	0,86	
STOXXE 600 Technology	1016		43,59		0,42	23,31		4,92		1,31		18,50		4,29		31%	1,65	
STOXXE 600 Autom. & Parts	430		48,44		-9,69	8,87		0,55		4,50		5,34		11,27		22%	0,55	
STOXXE 600 Health Care	1107		70,06		0,47	15,82		3,36		2,91		18,20		6,33		18%	1,12	
STOXXE 600 Financial Services	938		64,58		0,45	14,46		1,65		3,03		11,57		6,89		14%	0,94	
STOXXE 600 Insurance	534		42,74		0,12	12,49		2,25		4,99		17,87		8,01		7%	0,86	
STOXXE 600 Telcos	279		17,05		-0,53	16,39		1,75		4,25		9,80		6,11		19%	1,06	
STOXXE 600 Media	380		30,92		-0,55	12,28		1,96		3,61		13,61		8,14		21%	0,83	
STOXXE 600 Ind. Goods & Services	1175		56,53		0,32	20,76		4,29		2,16		19,12		4,81		17%	1,47	
STOXXE 600 Constrn & Materials	794		42,77		-15,41	18,56		2,36		3,00		12,86		5,39		25%	1,23	
STOXXE 600 Basic Resources	817		59,74		0,75	13,71		1,83		4,11		13,19		7,31		8%	0,91	
STOXXE 600 Retail	465		29,50		-0,08	15,77		2,90		3,78		17,27		6,34		20%	1,09	
STOXXE 600 Travel & Leisure	274		21,61		-3,78	12,69		3,03		2,72		23,92		7,89		17%	0,92	
*BBG consensus, NOT an official BNP target price																		

*BBG consensus, NOT an official BNP target price

TABLE : US SECTORS

Index	Level	1yr Range	Forward										Composite					
			EPS change 4				Earnings				Potential Upside to 12M		vs. S&P 500					
			EPS	Syr Z-Score	weeks (%)	PE Ratio	Syr Z-Score	PB Ratio	Syr Z-Score	Div Yield	Syr Z-Score	ROE	Syr Z-Score	Yield	Syr Z-Score	Target Price*	vs. S&P 500	Syr Z-Score
S&P 500	7704		382,98		0,63	20,12		4,82		1,15		22,71		4,97		20%	1,00	
S&P 500 Consumer Discretionary	1832		78,41		-0,23	23,36		6,01		0,71		23,33		4,28		25%	1,18	
S&P 500 Consumer Staples	912		42,72		-0,30	21,36		6,24		2,57		28,91		4,68		15%	1,11	
S&P 500 Energy	960		76,14		7,15	12,60		2,31		2,64		18,62		7,93		10%	0,60	
S&P 500 Financials	908		60,09		0,61	15,11		2,16		1,91		14,05		6,62		17%	0,69	
S&P 500 Health Care	1982		104,51		-0,24	18,97		5,01		1,61		22,08		5,27		10%	0,96	
S&P 500 Industrials	1430		59,82		-1,25	23,91		6,30		1,26		25,54		4,18		24%	1,21	
S&P 500 Information Technology	7224		298,18		0,88	24,23		10,95		0,51		42,74		4,13		22%	1,41	
S&P 500 Materials	629		36,50		0,50	17,23		2,91		1,65		16,29		5,80		20%	0,81	
S&P 500 Real Estate	267		7,58		-0,72	35,27		2,98		3,52		8,25		2,83		21%	1,53	
S&P 500 Communication Services	480		23,27		-0,49	20,61		3,97		0,70		18,24		4,85		19%	0,99	
S&P 500 Utilities	400		25,35		-0,60	15,78		1,87		3,30		12,05		6,34		28%	0,71	

*BBG consensus, NOT an official BNP target price

Source: BNP Paribas, Bloomberg

Z-Score: Defines the number of standard

Our key convictions at a glance (Overweight equity)

		USA	Europe	Japan	Emerging Markets
Relative view*		Overweight	Underweight	Overweight	Overweight
What we (especially) like		Information Technology	Information Technology	Domestically exposed names benefiting from wage gains or GDP growth	Northeast Asia (China A shares, Korea, Taiwan), Latin America
What we don't (really) like					
Preferred themes & trades	Regional basis		Strategic Autonomy	Governance Reform achievers	APAC Tech
	Global basis	Infrastructure and Industrials exposed to Artificial Intelligence, Energy independence, Fiscal Spending and Re-shoring Innovation in Healthcare Metals & mining, particularly those critical for renewables, electrification and defense electronics			

* Relative view: against your benchmark

Economic, FX forecast tables

Strong growth outlook despite Iran conflict

BNP Paribas Forecasts

GDP Growth %	2025	2025	2025- Bloomberg Consensus	2027	2027- Bloomberg Consensus
United States	2.1	2.2	2.2	2.3	2.2
Japan	1.2	1.0	0.8	1.2	0.8
United Kingdom	1.3	1.2	1.2	1.3	1.2
Switzerland	1.8	2.0	1.3	1.7	1.4
Eurozone	1.3	1.1	0.9	1.5	1.3
Germany	0.3	1.1	1.0	1.3	1.1
France	0.9	0.5	0.5	1.0	0.9
Italy	0.7	0.9	0.9	0.8	0.7
Emerging					
China	5.0	4.6	4.6	4.5	4.4
India**	7.8	6.7	7.5	6.9	7.1
Brazil	2.3	1.9	2.0	1.3	1.6

** Fiscal year

Source : BNP Paribas, Bloomberg - 01.10.2026

Inflationary pressure persists

BNP Paribas Forecasts

CPI Inflation %	2025	2025	2025- Bloomberg Consensus	2027	2027- Bloomberg Consensus
United States	2.7	3.4	3.4	2.3	2.5
Japan	3.1	2.0	1.9	2.5	2.1
United Kingdom	3.4	3.2	3.1	3.2	2.7
Switzerland	0.2	0.6	0.6	0.7	0.7
Eurozone	2.1	3.0	2.9	2.8	2.5
Germany	2.3	2.7	2.7	2.6	2.5
France	0.9	2.4	2.3	2.3	2.0
Italy	1.6	2.9	2.9	2.1	2.2
Emerging					
China	0.0	1.0	1.0	1.2	1.1
India*	2.1	5.0	2.0	4.6	5.1
Brazil	5.0	4.5	4.5	4.6	4.3

* Fiscal year

Source : BNP Paribas, Bloomberg - 01.10.2026

FX FORECASTS EUR

	Country	Spot 30/09/2026	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
Eurozone	United States	EUR / USD 1.14	Neutral	1.12	Negative	1.20
	United Kingdom	EUR / GBP 0.85	Neutral	0.84	Neutral	0.87
	Japan	EUR / JPY 178.48	Neutral	177	Negative	186
	Switzerland	EUR / CHF 0.95	Neutral	0.94	Positive	0.92
	Australia	EUR / AUD 1.63	Positive	1.60	Neutral	1.64
	New-Zealand	EUR / NZD 2.01	Positive	1.96	Neutral	2.0
	Canada	EUR / CAD 1.61	Positive	1.57	Neutral	1.62
	Sweden	EUR / SEK 11.33	Positive	11.00	Positive	10.80
	Norway	EUR / NOK 10.89	Neutral	10.80	Positive	10.60
	China	EUR / CNY 7.62	Neutral	7.50	Negative	7.92
Asia	India	EUR / INR 108.85	Positive	106.40	Negative	114.0
	Brazil	EUR / BRL 5.88	Neutral	5.82	Negative	6.0
Latam	Mexico	EUR / MXN 20.44	Positive	19.04	Neutral	20.16

Source: BNP Paribas, LSEG

FX FORECASTS USD

	Country	Spot 30/09/2026	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
Eurozone	Eurozone	EUR / USD 1.14	Neutral	1.12	Positive	1.20
	United Kingdom	GBP / USD 1.33	Neutral	1.33	Positive	1.38
	Japan	USD / JPY 157.14	Neutral	158	Neutral	155
	Switzerland	USD / CHF 0.83	Neutral	0.84	Positive	0.77
	Australia	AUD / USD 0.70	Neutral	0.70	Positive	0.73
	New-Zealand	NZD / USD 0.56	Neutral	0.57	Positive	0.60
	Canada	USD / CAD 1.42	Neutral	1.40	Positive	1.35
	China	USD / CNY 6.71	Neutral	6.70	Neutral	6.60
	India	USD / INR 95.83	Neutral	95.0	Neutral	95.0
	Brazil	USD / BRL 5.17	Neutral	5.20	Positive	5.00
Latam	Mexico	USD / MXN 17.99	Positive	17.00	Positive	16.80
	South Africa	USD / ZAR 16.40	Positive	16.00	Positive	15.75
EMEA	USD Index	DXY 101.45	Neutral	101.92	Negative	96.31

Source: BNP Paribas, LSEG

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