C.I.A. NETWORK

Asset Strategy in Brief

September 2025

BNP PARIBAS
WEALTH MANAGEMENT

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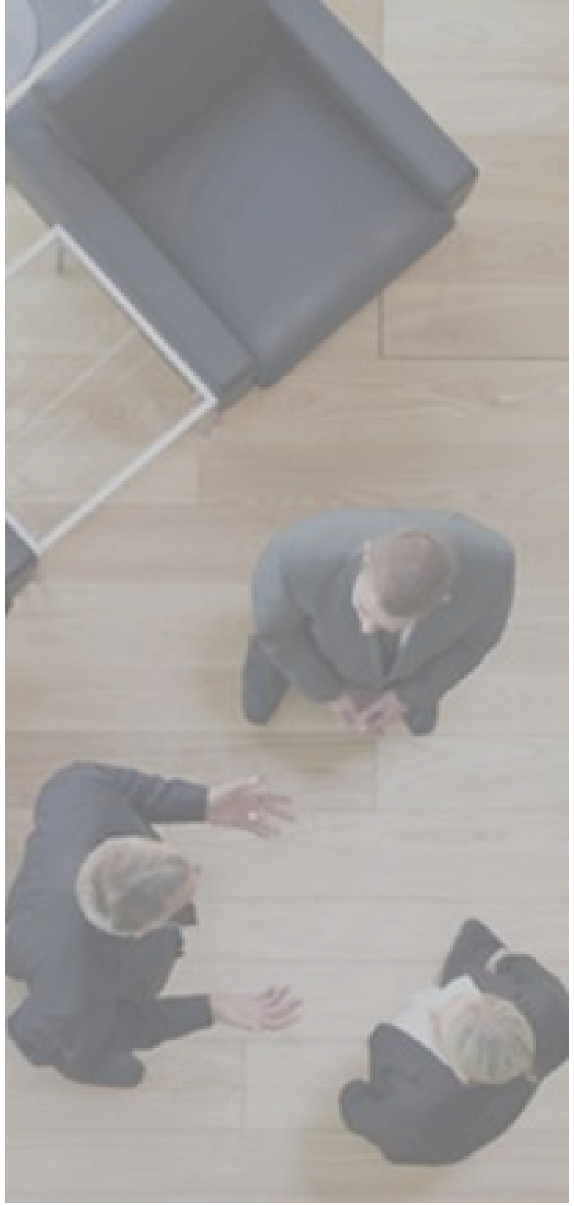
world



Contents

01

Macro and market views

Macro and Market Views

Macro			– The key question in the US is: how will tariffs impact the US consumer and inflation? The first signs of tariff impacts are now being seen. We expect further slowing of domestic consumption to occur over H2. – In the eurozone, consumer confidence is 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 4.2%). – Expect ECB to maintain deposit rate at 2% (no cut to 1.75% now expected). – Positive on US Treasuries; prefer intermediate (5-7 year) maturities. US to cut Fed Funds rate to 4%, 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 cashflows, 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	=		– We maintain a Neutral strategic view on Equities. The retail investor-led rebound in US stocks seems excessive, driving valuations to 20-year highs. – Positive on Europe on repatriation flows, better macro growth outlook and infrastructure & defence spending plans. – Favour UK, Japan, South Korea, China. Remain Negative on the US. – Positive on Health Care and Utilities. For the EU, Positive on Banks, Industrials and Materials. – Negative on US IT and Consumer Discretionary.
Real Estate	=		– European real estate prices started to recover in Q1 2025, with rental yields now more attractive at 4.3%-5.0% for prime European commercial property segments. Residential property prices are also rising in variable rate-sensitive markets such as Spain and the Netherlands. – Industrial/logistics exposure preferred for healthy yields, higher expected rental growth on robust underlying demand growth.
Commodities	+/-		– Gold: Neutral tactical view, Positive for the long term (buy on dips) as EM central banks continue to make strategic purchases and Asian households remain buyers. Increased Gold 12m target USD 3500/ounce (USD 3300 previously), silver 12m target of USD 45/ounce (from USD 40 previously). – 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. – Positive long-term view on base metals such as copper, aluminium, tin.
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. – Our EUR/USD 3-month target USD 1.15 and our 12-month target USD 1.20 (value of one EUR).

Asset Allocation

Allocation changes this month:

- **Equities:**
  - We downgrade Indonesia to Neutral and Thailand to Negative in our Asia country preference.

- **Bonds:**
  - We no longer expect the ECB to cut rates in September. We think the cycle is over, and the next move should be a hike, in Q4 2026.
- **FX:**
  - **EUR/GBP:** We adjust our 3-month target to 0.87 and maintain our 12-month at 0.87 (the value of one EUR).
  - **USD/CNY:** We change our 3-month target to 7.15 and 12-month target to 7.10 (value of one USD).
  - **USD/CAD:** We change our 3-month target to 1.38 and our 12-month target to 1.35 (value of one USD).
  - **USD/MXN:** Our 3-month target is 19 and we adjust our 12-month target to 18 (value of one USD).

- **Commodities:**
  - We return to our long-term Positive view on Base Metals.
  - We stay Neutral on gold, but we increase our 12-month target price to USD 3500/ounce
  - We remain Positive on silver with an increased target price of USD 45/ounce (from USD 40).

Outlook Summary

	Very underweight	Underweight	Neutral	Overweight	Very Overweight
Equities			=		
Government Bonds				+	
Corporate Credit				+	
Real Estate			=		
Alternatives				+	
Cash		-			

Key macro & market forecasts

	GDP Growth %		Inflation %		Central Bank Rates %				Key market forecasts		
	2025e	2026e	2025e	2026e		Now	3M	12M		Now	12M
US	1.6	1.5	2.8	3.6	US Fed Funds Rate	4.50	4.25	3.50	US 10Y yield %	4.22	4.25
Eurozone	1.3	1.3	2.1	1.9	ECB Deposit Rate	2.00	2.00	2.00	Euro 10Y yield %	2.72	2.75
Japan	1.1	0.6	3.2	2.5	Bank of Japan Policy Rate	0.50	0.75	1.25	UK 10Y Yield %	4.72	4.20
UK	1.2	1.0	3.5	2.7	Bank of England Base Rate	4.00	3.75	3.50	S&P 500	6460	n/a
China	4.8	4.5	0.0	1.0	China 7D reverse repo rate	1.40	1.20	1.00	Euro STOXX 50	5351	n/a
									Oil Brent USD/bbl	68	60-70
									Gold USD/oz	3441	3500

Source: BNP Paribas WM. As at 1 September 2025

02

Bonds

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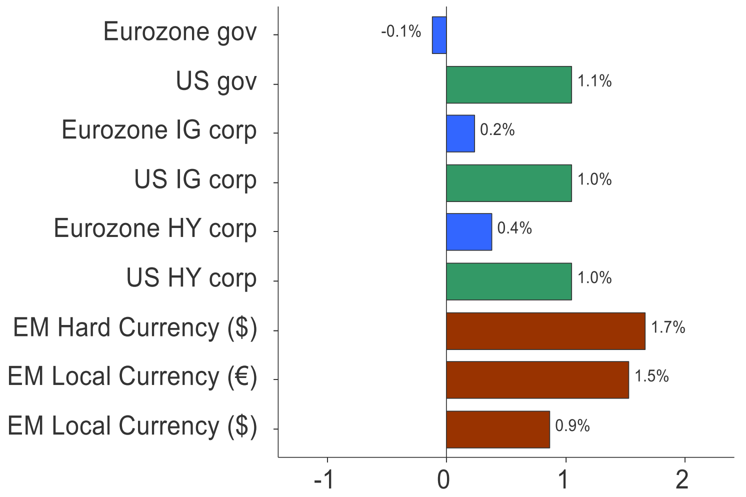
Fixed Income at a glance

We saw a repricing of central bank rate expectations over August. Powell mentioned at Jackson Hole that with headline job gains at low levels, a further loss of momentum could create downside risks to the US labour market and economy. This would be the case despite the low and steady unemployment rate. This reinforces our assumption that the Fed will cut in September. We now expect the ECB to stay on hold.

We continue to favour high-quality, highly liquid bonds, particularly US, UK and core EU sovereign bonds, US TIPS as well as EUR and UK investment grade corporate bonds.

10-year yield	27/08/2025	12-month target
US	4.23	4.25
Germany	2.69	2.75
UK	4.74	4.20

Returns over one month



Source: LSEG Datastream, Bloomberg and JPM indices, 26/08/2025

Central Banks

We no longer expect the ECB to cut rates in September. We think the cycle is over, and the next move should be a hike, in Q4 2026. In the US, we still expect two rate cuts this year and two in 2026, with a terminal rate of 3.5%. The market pricing is more in line with this view now.

Government Bonds

We keep our 12-month US 10-year yield target at 4.25%. For Germany and the UK, the targets are 2.75% and 4.20% respectively. We stay Positive on US, UK and German government bonds and US TIPS.

Peripheral bonds

Peripheral spreads continued rallying, with Italian and Greek spreads at multi-year lows. Stronger fiscal positions, robust economic growth and ECB support have boosted investor confidence. The political crisis in France pushed yields and spreads higher but the move is limited. Too early to come back.

Corporate Investment Grade (IG) Bonds

We prefer EUR and UK IG (Positive view) over USD IG (Neutral view) given its better credit metrics, lower volatility, and global move for diversification away from USD assets. We prefer maturities up to 7 years in the eurozone and up to 5 years in the US.

Corporate High Yield (HY) Bonds

HY spreads remain very low as fundamentals remain resilient. We prefer to maintain a Neutral stance as the asset class seems overvalued and does not reflect the upcoming US slowdown.

Emerging Market (EM) Bonds

Spreads have tightened further, while global risks persist. While EM debt offers value, we believe that current valuations and macroeconomic uncertainty justify a neutral stance.

03

Currencies

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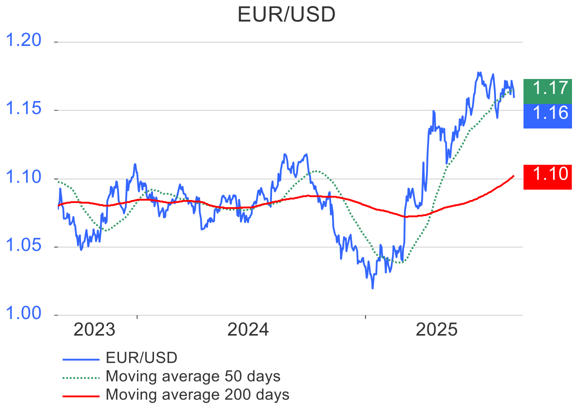
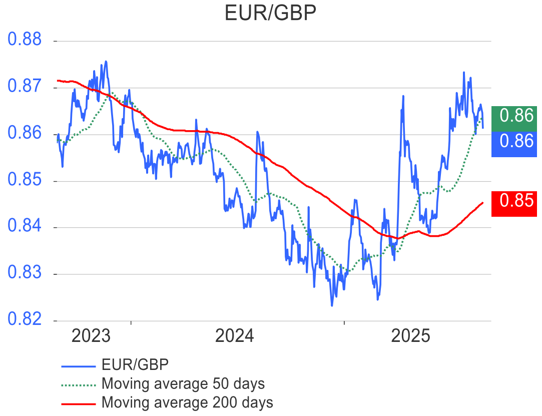
Currencies at a glance

1. **EUR/USD:** the USD became more sensitive to US macro data, with labour market weakness now evident. Markets are aligned with our view of Fed rate cuts in September and December. Policy uncertainties linked to tariffs and debt sustainability and Fed independence are weighing on US assets. French politics could weigh temporarily on the EUR. **We maintain our 3-month target at 1.15 and our 12-month target at 1.20 (the value of one EUR).**
2. **EUR/GBP:** we do not expect UK fiscal policy to deliver a growth boost in the near term. The fiscal position remains challenging, and financing needs must be addressed in the November budget. With major tax hikes ruled out, policy flexibility is limited, and any loosening of fiscal rules could weigh on Sterling. This seems to be largely priced. **We adjust our 3-month target at 0.87 and maintain our 12-month at 0.87 (the value of one EUR).**



Source: LSEG Datastream, 27/08/2025



Source: LSEG Datastream, 27/08/2025

>> TARGET 12M EUR/CHF: 0.94

The SNB cut rates by 25bp in June to 0%. The EUR should be supported by the eurozone's better growth prospects because of its recent fiscal shift. Sustained appetite for defensive currencies should, however, limit any downside for the CHF. **Our 3- and 12-month EUR/CHF targets are 0.94 (value of one EUR).**

>> TARGET 12M USD/JPY: 140

The BoJ maintained its policy rate at 0.5% in July. Our base case is for the Bank of Japan to resume rate hikes later this year. Rate differentials should weigh further on USDJPY as the Fed embarks on rate cuts. The JPY should appreciate gradually. **Our 3-month target is 145 and our 12-month target is 140 (the value of one USD).**

>> TARGET 12M EUR/NOK: 11.30

The Norges Bank cut rates by 25bp in June to 4.25%. We think additional fiscal stimulus and positive rate differentials should support the currency. Lower oil prices following the de-escalation of geopolitical tensions could limit the upside. **Our 3-month EUR/NOK target is 11.60 and our 12-month target is 11.30 (value of one EUR).**

>> TARGET 12M USD/CAD: 1.35

The BoC maintained its policy rate at 2.75% in July. A possible USMCA revision means uncertainty will persist. However, the pricing out of BoC rate cuts alongside our Fed easing outlook should support the CAD. **Therefore, we change our 3-month target to 1.38 and our 12-month target to 1.35 (value of one USD).**

>> TARGET 12M USD/MXN: 18.00

The Banxico lowered its policy rate by 25bp to 7.75% in August. The MXN could stay well-supported by broader USD weakness. In addition, Carry still dominates over trade risks. The upside is however limited due to uncertainty over potential changes to the USMCA. **Our USD/MXN 3-month target is 19 and we adjust our 12-month targets to 18 (value of one USD).**

>> TARGET 12M USD/CNY: 7.10

The PBoc left the policy rate unchanged in July. The CNY rose on the tariff deal and the PBoC has been gradually setting the USD/CNY fixing lower. The currency may appreciate gradually in the context of Fed rate cuts, but deflationary domestic conditions and outbound flows limit the upside. **We change our 3-month target to 7.15 and 12-month target to 7.10 (value of one USD).**

Currencies at a glance

FX FORECASTS EUR

	Country		Spot 27/08/2025	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1.16	Neutral	1.15	Negative	1.20
	United Kingdom	EUR / GBP	0.86	Neutral	0.87	Neutral	0.87
	Japan	EUR / JPY	171.41	Positive	167	Neutral	168
	Switzerland	EUR / CHF	0.93	Neutral	0.94	Neutral	0.94
	Australia	EUR / AUD	1.79	Positive	1.74	Neutral	1.82
	New-Zealand	EUR / NZD	1.99	Positive	1.92	Neutral	2.00
	Canada	EUR / CAD	1.60	Neutral	1.59	Neutral	1.63
	Sweden	EUR / SEK	11.10	Neutral	11.00	Neutral	11.00
	Norway	EUR / NOK	11.75	Neutral	11.60	Positive	11.30
Asia	China	EUR / CNY	8.30	Neutral	8.22	Negative	8.52
	India	EUR / INR	101.66	Positive	98.90	Negative	105.60
Latam	Brazil	EUR / BRL	6.31	Negative	6.44	Negative	6.96
	Mexico	EUR / MXN	21.75	Neutral	21.85	Neutral	21.60

Sources: BNP Paribas, LSEG

FX FORECASTS USD

	Country		Spot 27/08/2025	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1.16	Neutral	1.15	Positive	1.20
	United Kingdom	GBP / USD	1.35	Neutral	1.32	Positive	1.38
	Japan	USD / JPY	147.86	Neutral	145.00	Positive	140.00
	Switzerland	USD / CHF	0.80	Neutral	0.82	Positive	0.78
	Australia	AUD / USD	0.65	Neutral	0.66	Neutral	0.66
	New-Zealand	NZD / USD	0.58	Positive	0.60	Positive	0.60
	Canada	USD / CAD	1.38	Neutral	1.38	Positive	1.35
Asia	China	USD / CNY	7.16	Neutral	7.15	Neutral	7.10
	India	USD / INR	87.69	Neutral	86.00	Neutral	88.00
Latam	Brazil	USD / BRL	5.45	Negative	5.60	Negative	5.80
	Mexico	USD / MXN	18.76	Neutral	19.00	Positive	18.00
EMEA	South Africa	USD / ZAR	17.76	Neutral	18.00	Neutral	17.50
	USD Index	DXY	98.23	Neutral	98.98	Negative	95.13

Sources: BNP Paribas, LSEG

04

Equities

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Proceed with caution

A complacent (and expensive) US market

- **US equities remain the most expensive part** of the market. After a strong rally from the April lows, valuation increased across global markets. US equities still command the most extreme valuations with multiple measures at (or close to) record levels. The "Buffett indicator" of market cap to GDP is back up to 223%, within a whisker of the 227% reached in 2021. Robert Shiller's most robust cyclically adjusted PE (which accounts for the increased use of buybacks over time) is just 3% below post-COVID highs, and the only other time it has been higher was in the TMT bubble.
- **We need a trigger!** On its own, valuation rarely causes a sell-off in stocks. However, the mixture of high shorts in the VIX, a strong recent performance and a potential fundamental downside from tariffs could provide one very quickly. Correlation data suggest that a US-ignited correction may hit all markets, but they also indicate that RoW equities should hold up better than their US peers in such a scenario.
- **Diversification pays off.** As we had expected, diversifying away from the US offered substantial outperformance potential. This was true both in local currency and in the dollar. Due to the weak greenback, it was especially painful for euro-based investors to remain invested in the US while dollar-based investors enjoyed double tailwinds. We expect this trend to continue.

Main recommendations

Taking advantage of political uncertainties: Financials in Europe took a hit from the recent events in France. Our analysis of past occurrences suggests that financials showed above-average returns in the 6 months after a confidence vote announcement. The path may be choppy, though.

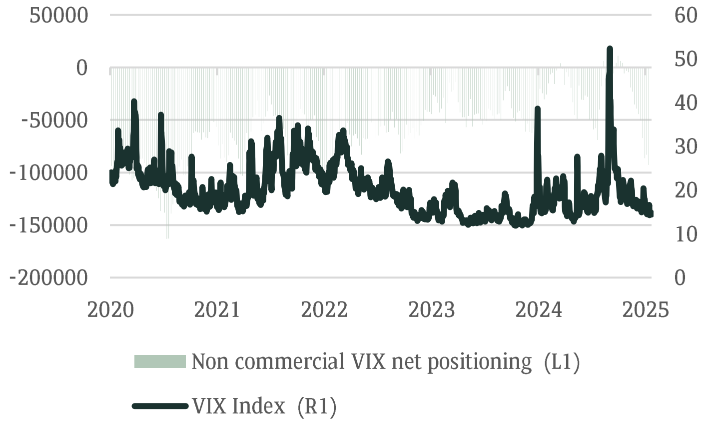
Remaining Neutral on equities overall. This is due to i) high US valuations; ii) the risk of a more severe US economic slowdown; and iii) the residual risk of trade talks failing. We thus prefer to keep some powder dry as the chances are that a resurgence in volatility may present investors with more attractive opportunities to increase their overall equity allocation.

No Sector change. Despite very good Q2 corporate results, we stay relatively careful in our positioning on US equities. In Europe, we like companies that should profit from infrastructure plans and other economic stimuli. European Banks are still cheap.

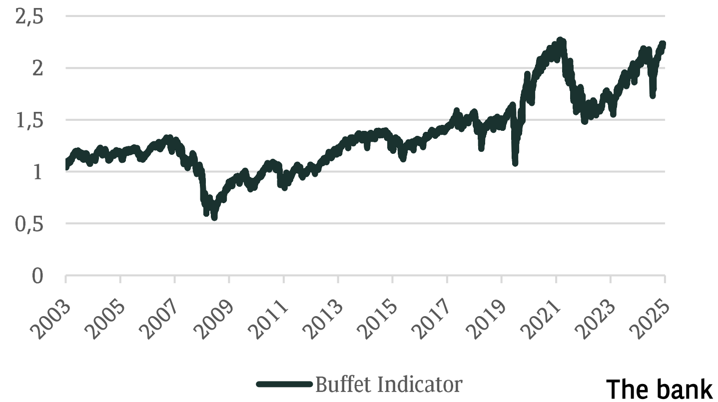
We downgraded Indonesia to Neutral after a strong rally, and **Thailand to Negative** as we expect a slower economy while the latter's domestic political landscape continues to be challenging.

The key risk is a US recession, which would cause earnings growth to turn negative in most major markets. A stagflationary episode in the US, causing the Fed to raise interest rates, would be a kind of "black swan event"!

Elevated VIX shorts and a low VIX =



The Buffet Indicator is very elevated



Asian Equities view

ASIA COUNTRY PREFERENCE

+	=	–
COUNTRY		
China Singapore South Korea	Taiwan India Indonesia	Thailand

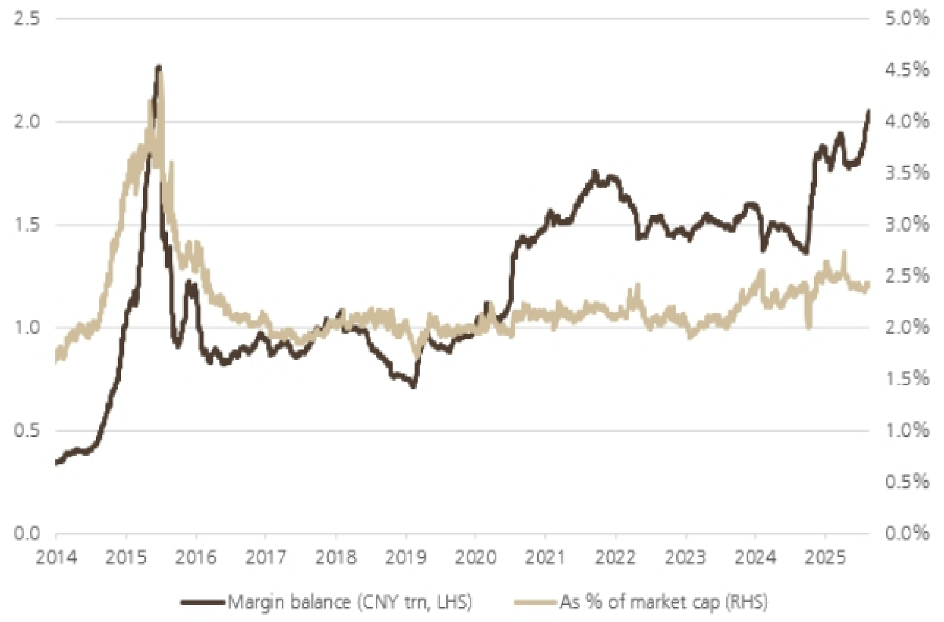
- **China – A-share markets** caught up strongly in August despite weaker-than-expected macro data and lukewarm policy support in anti-involution campaign and property markets. Retail inflows are strong with trading volumes up 80% YOY and margin financing rising sharply. We believe there is still room for further upside (though we may see some consolidation in the short term), as i) retail participation typically increases following strong performance; ii) margin financing volume as % of market cap remains low compared with history; iii) more savings could potentially flow into equity markets amid lower deposit rates; and iv) valuations remain reasonable compared with other major regions.

- We also remain overweight in **Hong Kong equities and H-shares**, as i) Southbound inflows continue; ii) some big tech names beat earnings expectations with continued upward earnings revisions; iii) valuations are not stretched despite the strong rally YTD. We continue to like China tech sector and high dividend stocks in the HK/China financial and China telecom sectors.

- We **downgraded Indonesia to Neutral** after a strong rally, and **Thailand to Negative** as we expect a slower economy while domestic political landscape continues to be challenging.

We maintain our Positive stance on Hong Kong/China equities

A-share market leverage has increased while margin balance as % of market cap remains low



Source: Bloomberg, UBS, as at 20 August 2025

05

Commodities

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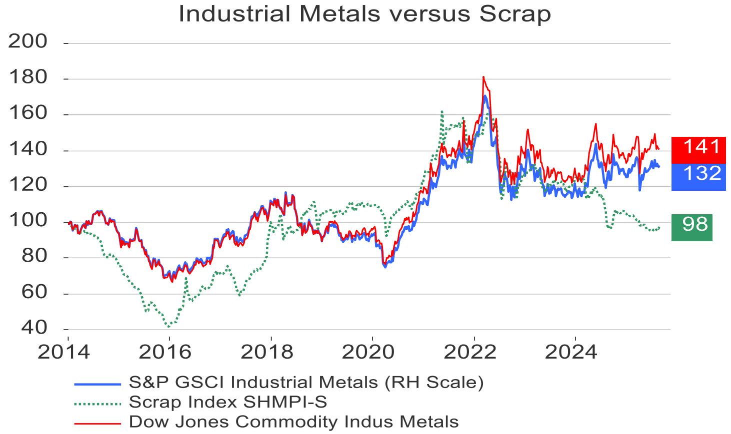
Commodities at a glance

The **industrial metals** performance has been mixed year-to-date: copper (+10%), tin (+15%) and aluminum (+2%) are up, while iron ore (-2%), nickel (-2%) and zinc (-7%) are down. Although US trade tariffs had initially increased recession fears, Chinese economy seems quite resilient and EU PMI's are recovering. For some metals like copper, there has been a spike in US prices due to feared tariffs on metal, but copper metal has been exempted (so US prices corrected).

BASE METALS

<u>We return to our long-term Positive view</u>, as the trade war has not result in a major economic slowdown and meanwhile trade deals are being signed with major trade partners. For the coming years, we still expect that the growing demand for energy transition and infrastructure will outpace the expected supply growth.

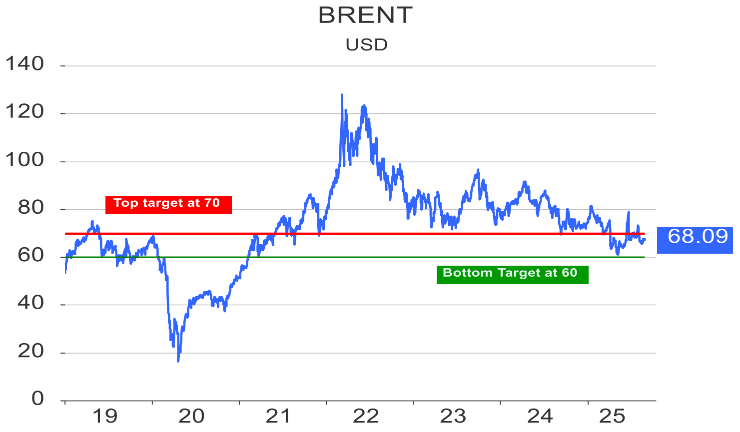


Source: LSEG Datastream, 27/08/2025

Oil prices recently declined again, as OPEC+ has fully unwound its 2.2 mbd voluntary cuts, and the risks for the Hormuz disruption or the stricter sanctions enforcement on Iranian and Russian oil exports have eased. The market will closely watch further developments in the Russia-Ukraine peace negotiations, as this can finally impact Western sanctions on Russian oil (in both ways).

OIL

<u>We maintain our Negative view, with a target range of USD 60-70,</u> in view of OPEC+ production hikes, substantial non-OPEC supply growth, combined with limited demand growth, and a possibility of easing sanctions.



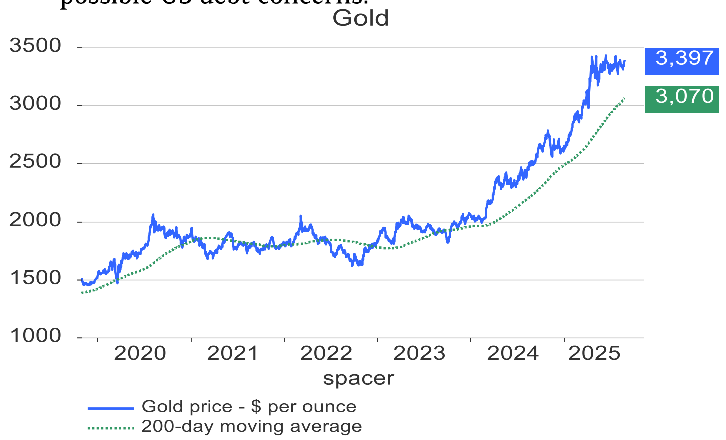
Source: LSEG Datastream, 27/08/2025

Gold price is consolidating at around our target of USD 3300. Other precious metals, like silver and platinum, caught up due to a substitution in the jewelry market and tight supply. Gold is up +28% YTD silver +30% and platinum +46%.

Silver: we remain Positive on silver with an increased target price of USD 45 (from USD 40).

GOLD

<u>We stay Neutral on gold, but we increase our 12-month target price to USD 3500/ounce (from USD 3300).</u> A de-escalation in the trade war and geopolitical conflicts could reduce the flight to save-haven investments. On the other hand, we think gold should remain supported by Fed rate cuts and weak USD, central banks buying, tariff related inflation and possible US debt concerns.



Source: LSEG Datastream, 27/08/2025

Our position for this month

Evolution of our position from last month

06

Alternative Investments

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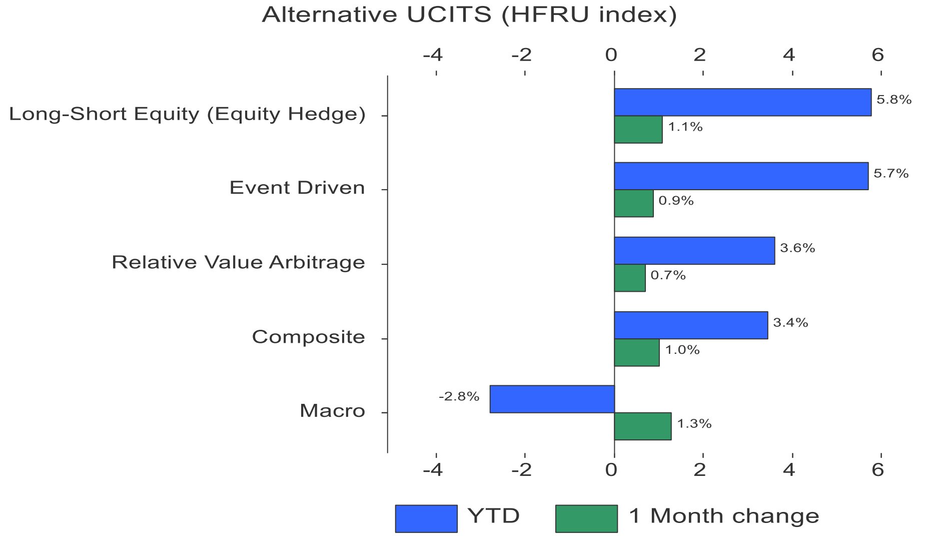
Alternative Investments

The past month was generally positive.

Since January, performance has been positive overall, with Long-Short Equity being the best performers, while Macro still underperformed.

Positive opinion on Macro, Long-Short equity and Relative Value.



Source: LSEG Datastream, 25/08/2025

Global Macro

Positive: Unpredictability of the Trump administration, but daily declarations seem to have a diminishing impact on markets. Most strategies tend to have significant uninvested cash as they primarily use futures and derivatives. Therefore, they offer, by definition, "cash + alpha" returns as they now benefit from the extra kicker from higher interest rates.

Event Driven

Neutral: By the end of Q2, the deal volume started rebounding on relatively fewer surprises from the US Administration. European deal activity has been more promising with European authorities now pushing for the emergence of continental sector leaders. Most recent deals have been progressing well with few challenges, and therefore, the strategy has been quite positive year-to-date.

Long/Short Equity

Positive: Intra-market equity dispersion has returned to historically high levels, with a significant disparity between expensive and cheap stocks. This creates favourable conditions for identifying long and short stock opportunities. Despite the pain caused by recent market turmoil, the high level of volatility is positive for Equity Long/Short and active management. Tariff uncertainties have created ample opportunities.

Relative Value

Positive: Credit dispersion may increase as high yield companies face "higher for longer" interest rates with their debt maturity approaching and some of them likely to struggle with significantly higher funding costs. Convertible bond arbitrage benefits from increased issuance & refinancing/liability management, as long as the credit quality remains good enough. Government bond relative value arbitrage should benefit from diverging monetary policies & inflation, with less risk than directional macro trades.

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