SEPTEMBER 2025

Investment Strategy Focus

World ex-US stocks march upwards

Summary

1. **Tighter US fiscal policy balanced by looser monetary stance.** US tariffs are a tax principally on US households and businesses, thereby slowing growth. Lower interest rates should partially offset this drag. But US corporate profit margins are at risk and could prompt cost-cutting actions. World ex-US stocks have maintained their 2025 outperformance at +10% versus the S&P 500.

2. **Improving Euro activity implies an ECB now on hold.** Improving manufacturing activity, positive loan growth and easing energy costs support modest eurozone growth, with the impact from defence & infrastructure spending yet to materialise. We now expect no further ECB rate cuts, with the deposit rate maintained at 2%.

3. **No big shift in bond yields, and credit spreads remain tight.** The US 10-year Treasury yield remains at around our 12-month target, i.e. at 4.3%, while eurozone sovereign yields creep higher. Investment grade credit spreads remain at historic lows, offering few compelling fixed income opportunities to investors at present.

4. **New multi-year highs in multiple stock markets around the globe.** The MSCI World ex-US index hit new highs in August, led by Japan, Canada, the UK and Emerging Markets ex-China. We continue to prefer exposure to the UK, Japan, China and South Korea. We also like eurozone mid- and small-cap exposure given the improving domestic economic momentum.

5. **No strategic metals, no technology:** strategic metals are essential for creating tools for technological progress. Their supply can be at risk due to scarcity and geopolitics, when global demand increases. We favour exposure to copper, silver and rare earth metals via investment in physical metals and via miners.

Contents

GLOBAL STOCKS EX-US
CONTINUE TO CLIMB TO NEW HIGHS

Source: BNP Paribas, Bloomberg

Edmund Shing, PhD

Global CIO
BNP Paribas Wealth Management

Macro, 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.
Commod-ities	+/-	– 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.
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. – Our EUR/USD 3-month target **USD 1.15** and our 12-month target **USD 1.20** (value of one EUR).

Key trends in August: Risk-on momentum maintained

New stock market highs

The combination of:

- a strong Q2 earnings season;
- positive broad money supply growth and looser financial conditions; and
- buoyant retail investor optimism

have combined to send global stock markets to new highs. This is not confined to the US, with the World ex-US index returning 10% in euro terms (23% in USD) to investors since the beginning of this year.

Valuations are not yet a real concern in stock markets outside the US, while it is undeniable that US large-cap stocks are at the high end of their historic valuation range at a 23x estimated P/E ratio.

Long-term bond yields remain stable, thus not exerting downwards pressure on stock markets at this stage. Retail investors continue to pour money into stocks, funds and ETFs on the back of the impressive returns achieved so far this year.

Mini-bubbles forming?

Famed investor Howard Marks, founder of investment firm Oaktree Capital, has recently warned that the US stock markets seem to be in the early stages of a late 1990s-style bubble. In his view, which we share, being heavily invested in equities and concentrated in just a few areas of the market could be a big mistake. He believes that over the longer term, reversion to mean is more likely to occur than the continuing of existing market trends favouring mega-cap tech stocks.

As always, the tricky part in adjusting one's stock market exposure is timing. As the famed British economist John Maynard Keynes once said, "*markets can remain irrational longer than you can remain solvent*".

In conclusion, we remain vigilant and would reduce (rather than add) to US mega-cap tech exposure in client portfolios. But it is not yet time to adopt an aggressively defensive asset allocation.

SMID-cap stocks outperform

Small- and mid-cap stocks in Europe and the US marched to new highs in August, thereby broadening out the ongoing global stock market advance and outperforming large-cap counterparts in each region over August. The S&P600 small-cap index gained 9% in August, while US microcaps did even better over the month at +10%.

In the eurozone, the MSCI EMU small-cap index has returned close to 23% since the beginning of this year, 9 points ahead of the Euro STOXX 50 (+14%) Improving domestic eurozone activity readings from the German IFO and eurozone PMI surveys suggest a more positive economic backdrop for domestic smaller-cap stocks, while small-caps are still valued at a P/E discount to large-cap stocks.

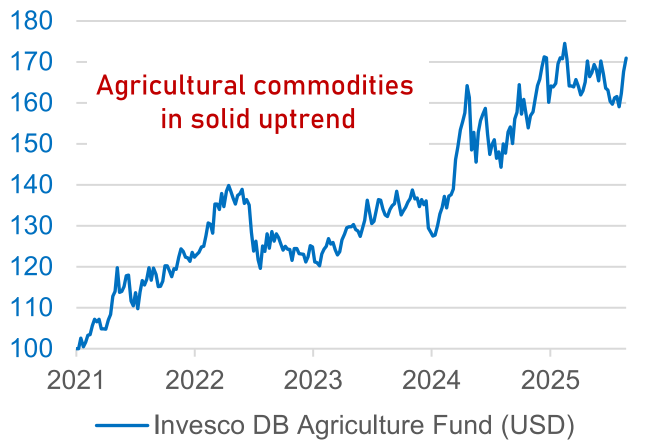
Agricultural commodities rise sharply: coffee, cattle

A largely unnoticed bull market is unfolding in agricultural commodities, a market that we do not invest in. Led by coffee and cattle futures, agricultural commodity prices continue to push consumer inflation higher, up 70% since the beginning of 2021.

GLOBAL STOCKS EX US
CONTINUE TO CLIMB TO NEW HIGHS

Source: BNP Paribas, Bloomberg.

AGRICULTURAL COMMODITY PRICES
ADD TO OVERALL INFLATION PRESSURES



Source: BNP Paribas, Bloomberg

US: tighter fiscal contrasts with looser monetary policy

Tariffs act as a US consumer tax

With the full application of US import tariffs now in force (subject to legal challenges in US courts), we can surmise that the burden of paying these tariffs will fall on US consumers and US companies, rather than foreign exporters.

While difficult to estimate the annual revenues to be generated by these import tariffs, 15%-20% average tariff rates should generate between USD 400bn and USD 500bn in annual tariff revenue for the US Treasury after numerous exemptions are accounted for. According to the Yale Budget Lab, with all 2025 tariffs fully in force, US households face an annual average cost of USD 3,800 each from higher prices on food, clothing, shoes and other items.

At the same time, some of the extra cost from tariffs will be absorbed by US businesses dealing heavily in goods, resulting in lower profitability and likely triggering the implementation of cost-saving measures including staff reductions, pushing up unemployment.

We would expect the full impact of these tariffs to be evident over the next few months as US companies run down their pre-tariff goods inventories and import tariffed goods in greater quantities. This should result in weaker US economic growth, although we still believe that a recession is unlikely at this stage.

It is not at all obvious that the potential drag from tariffs on US corporate profits has yet been fully discounted by analysts in their US earnings forecasts. S&P 500 aggregate earnings forecasts are running at 11.6% EPS growth for 2026 over 2025, which seems unduly optimistic given the slowing economic growth.

The Fed is likely to cut interest rates in September

The recent Jackson Hole speech by Fed Chairman Jerome Powell has underlined the high likelihood of a reduction of 0.25% in the Fed Funds rate at the 17 September Federal Open Market Committee meeting. We continue to expect a second Fed Funds rate cut in December, easing the official rate to 4% by year-end.

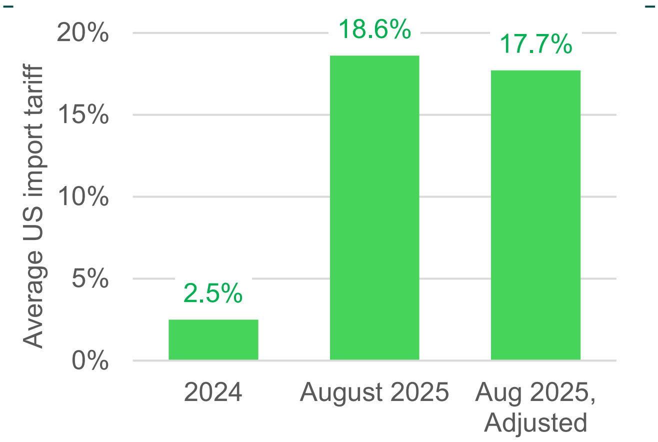
Fuelled by the loosening effect of tighter credit spreads, expanding broad money supply and accelerating bank loan growth, easier financial conditions are supporting the US economy and financial assets. This is largely offsetting the drag on economic growth from tighter fiscal policy as tariffs have their full effect.

Little impact on US bond yields

Given that US inflation remains well above the Fed's 2% target and that the Fed is very likely to cut rates soon, it is reassuring to see that the benchmark 10-year US Treasury yield continued to drift lower to under 4.3% by late August. This followed the fall in the 2-year Treasury yield from a high of 4.4% in early January to 3.7%.

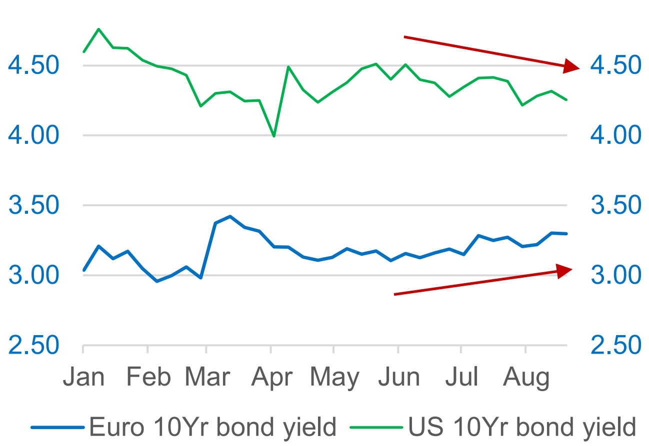
In contrast to the drift lower in the US 10-year bond yield, eurozone bond yields have been gently rising since mid-year. The average 10-year eurozone bond yield has risen 0.2% to 3.3% since June, reflecting the higher likelihood that the ECB will maintain its benchmark deposit rate at 2% for the foreseeable future. We have revised our ECB deposit rate expectation up from 1.75% to 2% at end-year given the recent improvement in eurozone activity indicators, removing one rate cut from our forecasts.

US CONSUMERS NOW FACE AN AVERAGE TARIFF RATE OF 17.7%



Source: Yale Budget Lab. As of 6 August 2025. Adjusted rate reflects the impact of expected shifts in US domestic consumption

US BOND YIELDS EASE LOWER, WHILE EURO YIELDS INCH HIGHER



Source: BNP Paribas, Bloomberg

Europe: surprising strength in activity surveys

Reports of the death of European manufacturing were exaggerated

Since late 2021, the steady decline in the German IFO business survey has marked the struggles of the European manufacturing sector, faced with the perfect storm of:

a. record energy costs;

b. sluggish domestic demand;

c. a structural shift in car demand away from diesel-engined towards electric and hybrid vehicles; and

d. US import tariffs of 15% on goods from the eurozone.

However, since the beginning of 2025 there has been a steady recovery from the lows in manufacturing activity, underlined by the rebound in the S&P Global Eurozone Manufacturing Purchasing Managers' Index to a value above 50 in August. Values above 50 indicate growth, albeit modest in this case. This comes in sharp contrast to 2023-24 when this index was consistently below 50, reflecting declining manufacturing sector activity.

With the real boost to capital investment in the defence and infrastructure sectors yet to come in Europe, we can look forward to further expansion in manufacturing activity in the coming months. A key factor in any continued expansion will remain low or falling energy costs. Crucially, both consumer and producer energy price inflation remains below zero on a yearly basis, a boost to household purchasing power and to corporate profit margins.

European loan growth is positive for growth

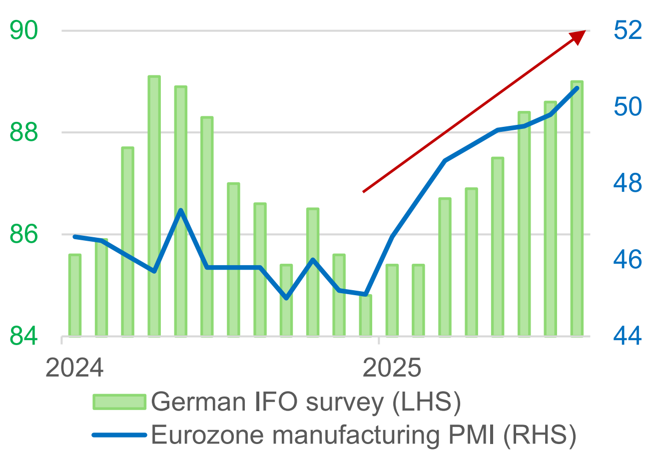
New loan demand from both households and companies in Europe continues to grow, for households principally in the form of mortgages, while companies are borrowing more money for investment purposes.

Borrowing rates are substantially lower in 2025 than a year earlier, helped by European Central Bank rate cuts. The average borrowing rate for Eurozone companies fell to 3.4% in June, compared with over 4% a year earlier. Given the lag between short-term interest rate movements and loan demand, we should expect further growth in aggregate loan demand in the coming months.

Loan demand growth points to improved economic growth ahead and has been one of several positive drivers behind the improvement in profits and share prices of the eurozone banking sector this year.

While the eurozone banking sector has already been substantially rerated since late 2022 from 6x forward P/E to nearly 10x today, this remains 25% below the US banking sector P/E of 13x, while still offering a generous dividend yield well in excess of 5%. We remain Positive on this sector given the generous level of shareholder returns (dividends + share buybacks) and the vastly improved level of profitability. The European banking sector's Return on Equity is forecast to exceed 12% this year, superior to the 11% ROE of their US bank counterparts for the first time since 2007.

SURPRISE: EUROPEAN MANUFACTURING IS RECOVERING IN 2025



Source: BNP Paribas, Bloomberg.

LOAN GROWTH, AMONGST OTHER FACTORS, HAS BOOSTED EUROZONE BANKS

Source: Bloomberg, BNP Paribas

Once again, political uncertainty in France

Guy Ertz, PhD

Another political drama

On 8 September, the French Prime Minister will ask for a "confidence vote". The President will therefore have to call for an extraordinary parliamentary session. The government does not currently have a majority and the opinion polls indicate weak popular support for the current administration. There is thus a high risk that the government will be defeated on the eve of the debate on the budget policy, due to start in early October. The Prime Minister's rationale was probably to regain control ahead of the budget discussions.

The Prime Minister will invoke Article 49.1 of the French Constitution. Accordingly, if a majority of deputies present in parliament on that day vote against, the government will collapse. The Prime Minister will probably keep the door open for negotiations on the budget. The Far-left party has already indicated that it will vote against the government. Comments from the Far-right leader, Marine Le Pen, also hinted that her party would act in the same manner. There is thus a high risk of the government losing this confidence vote.

President Macron suggested recently that if the government were to collapse, his preferred option would be to avoid new snap parliamentary elections and instead appoint a new prime minister. Persistent political blockade at the National Assembly could, however, force the president to call for new parliamentary elections. In that scenario, recent polls suggest that the Far-right party might be leading, with RN leader Jordan Bardella or Marine Le Pen being seen as among the most popular MPs. Early presidential elections are highly unlikely in view of the next presidential election scheduled for spring 2027. It will be the sole decision of the president to resign before then. This is unlikely as the political crisis has resulted from a lack of cohesion within the parliament.

Outlook for sovereign debt and budget deficit

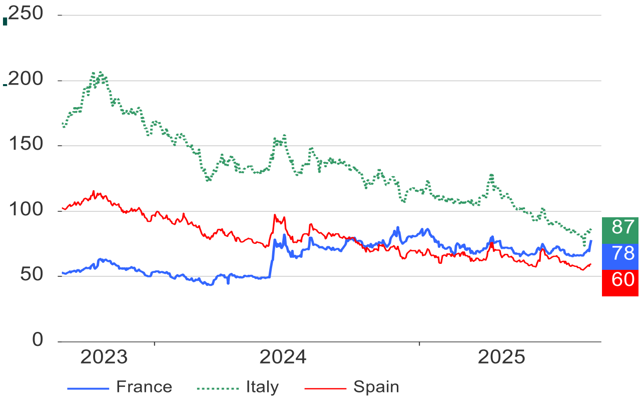
Our long-term view has been that with no majority, it will be quite difficult for the current administration to reduce the budget deficit from an expected 5.4% of GDP this year to 4.6% next year. At this stage, we keep our target at 5.0%. Obtaining tacit support from the Socialists (Parti Socialiste) would likely imply lower fiscal consolidation by abandoning measures to obliging the French work two extra days, freezing pensions and making some cuts in healthcare spending while possibly rebalancing the burden towards higher taxation in addition to the EUR4bn in taxes already planned for wealthy households.

Aspects to monitor

The main risks to monitor relate to rising government bond yields and thus the cost of debt. A possible trigger could be a credit rating downgrade. We do not expect this to occur in the coming months. There are several rating decisions scheduled for later in the year with Fitch (12 September), Moody's (24 October) and S&P (28 November). Risks of a downgrade will likely increase next year.

As shown in the left-hand-side chart, the rise in the yield spreads (difference in yields compared with a similar bond of the German government) has been quite modest compared with the recent political crisis. In the chart on the right, we see the evolution of the credit default swap, which is an insurance premium against the issuer's default. It thus reflects the perceived probability of default. Both charts suggest that the risk perception has increased, albeit moderately and remains quite low. To be monitored.

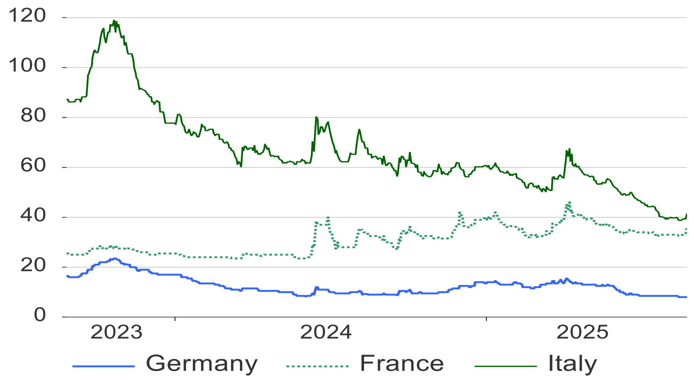
10-year government bond yield spreads



Source: LSEG Datastream, 26/08/2025

Euro area 5Y CDS

Basis points



Source: LSEG Datastream, 26/08/2025

Investing in Strategic Metals

No strategic metals, no technology

Strategic or critical metals are essential for creating the tools for technological progress. Their supply can be at risk due to scarcity, geopolitics and the concentration of production in a few countries.

On 25 August, the US Department of the Interior released their updated "List of Critical Minerals", defined as minerals needed to drive the US economy and protect national security. This list includes 54 minerals, including rare earth metals. 2025 additions to this list include potash, copper and silver. Note that for many rare earth metals and related products such as high-capacity batteries and magnets, that China is today the dominant global producer, with little production in the US or Europe.

Technology requires access to these critical metals as they possess unique properties essential for manufacturing advanced technology products including computer chips, batteries, renewable energy systems and digital devices. As an example, a new smartphone or laptop uses up to 50 different metals in their manufacture.

Investment in strategic metals such as rare earth metals, copper and silver thus represent an indirect upstream exposure to growth in technology, artificial intelligence and associated growth in electricity demand.

Strong performance of metals and miners this year

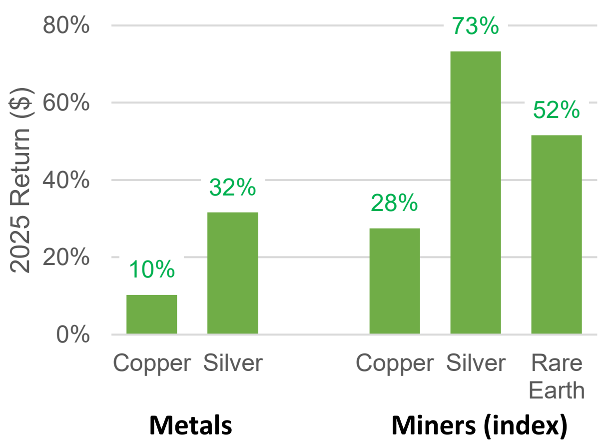
The resurgence in interest in these critical metals and the concentration of global supply versus growing demand has resulted in strong performance both for metals and associated mining companies. Copper has advanced 10% this year, while silver has appreciated 32% and platinum 48% given their twin status as ~~both~~ a critical industrial metal and a monetary metal.

Copper and silver mining companies have benefited from operational leverage to these rising commodity prices, as costs have increased by far less allowing for an expansion in profit margins. In US dollars, copper miners have appreciated as a group by 28% since the start of the year, beaten by rare earth metal miners at +52% and silver miners at +73%. Since the stock market low on 4 April this year, the indices of these three groups of miners have vastly outperformed the MSCI World index. The US metals & mining sector has underlined its strategic importance in this new geopolitical context, up 66% since the 4 April low.

We see further upside to these strategic metals' miners given their critical importance both in a technological and geopolitical context. We also upgrade our 12-month silver price target to USD45/ounce and retain our Positive view.

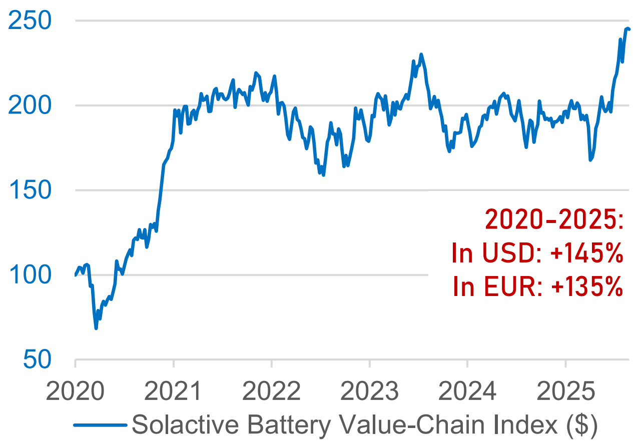
One investment theme that has benefited indirectly from this focus on strategic metals and growing global demand from the electrification trend is the battery value chain, including both commodity miners as well as battery and battery system manufacturers. Over 2025 to date, the Solactive battery value chain index has returned 27% in USD and 13% in EUR.

STRONG PERFORMANCE IN CRITICAL METALS AND ASSOCIATED MINERS



Source: BNP Paribas, Bloomberg.

BATTERY VALUE CHAIN THEME: YEAR TO DATE +27% IN USD, +13% IN EUR



Source: Bloomberg, BNP Paribas

Summary of our main recommendations, by asset class

	Current Recom	Prior Recom	Segments	We like	We avoid	Comments
EQUITIES	=	=	Markets	Eurozone, UK, Japan, China, Singapore, South Korea, Brazil	US, Thailand	Geopolitical uncertainty remains extreme, suggesting near-term prudence. We hold our Equities recommendation at Neutral, awaiting more positive signals on tariffs and liquidity. Our US stock recommendation remains Negative.
			Sectors	Global Health Care, Utilities, EU Industrials, EU Materials, EU Banks	EU Oil & Gas, Consumer Staples, US IT, US Consumer Discretionary	**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, EU mid/small-cap themes
BONDS	+	+	Govies	Favour intermediate euro and US duration		Positive on intermediate maturity core eurozone, UK government bonds, US Treasuries. 12-month US 10Y yield target 4.25%, German 10Y bund yield 2.75%, UK 10Y gilt yield 4.2%.
	+	+	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	USD and local currency		Neutral on EM bonds given risks ahead (trade barriers, high-for-longer US yields and tight valuations. Good fundamentals remain in place.
CASH	-	-				2 cuts will take the Fed Funds rate to 4% by end-2025, ECB deposit rate stable at 2%.
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 (+) better news flow on strategic metals like copper, tin. Gold (+) Neutral in the short term, Positive for the longer term (buy on dips), 12-month range = USD 3500.
FOREX			EUR/USD			Our EUR/USD 12m target is USD 1.20.
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	1.6	1.5
Japan	0.1	1.1	0.6
UK	1.1	1.2	1.0
Switzerland	1.0	1.5	1.4
Eurozone	**0.9**	**1.3**	**1.3**
Germany	-0.5	0.4	0.8
France	1.1	0.7	1.1
Italy	0.5	0.7	1.2
Emerging			
China	5.0	4.8	4.5
India*	8.2	6.5	6.3
Brazil	3.4	2.3	1.6

* Fiscal year

Source : BNP Paribas - 28/08/2025

BNP Paribas Forecasts			
CPI Inflation %	2024	2025	2026
United States	2.9	2.8	3.6
Japan	2.7	3.2	2.5
UK	2.5	3.5	2.7
Switzerland	1.1	0.2	0.7
Eurozone	**2.4**	**2.1**	**1.9**
Germany	2.5	2.3	2.0
France	2.3	1.0	1.3
Italy	1.1	1.7	1.7
Emerging			
China	0.2	0.0	1.0
India*	5.4	4.6	4.1
Brazil	4.4	5.1	4.4

* Fiscal year

Source : BNP Paribas - 28/08/2025

	Country		Spot 31/08/2025	Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1.17	1.15	1.20
	United Kingdom	EUR / GBP	0.87	0.87	0.87
	Switzerland	EUR / CHF	0.94	0.94	0.94
	Japan	EUR / JPY	171.86	167	168
	Sweden	EUR / SEK	11.08	11.00	11.00
	Norway	EUR / NOK	11.76	11.60	11.30
Against dollar	Japan	USD / JPY	146.83	145	140
	Canada	USD / CAD	1.37	1.38	1.35
	Australia	AUD / USD	0.65	0.66	0.66
	New Zealand	NZD / USD	0.59	0.60	0.60
	Brazil	USD / BRL	5.43	5.60	5.80
	India	USD / INR	88.22	86.0	88.0
	China	USD / CNY	7.13	7.15	7.10

Source: BNP Paribas, Refinitiv Datastream. As at 1 September 2025

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