C.I.A. NETWORK

Asset Strategy in Brief

JUNE 2025

BNP PARIBAS
WEALTH MANAGEMENT

The bank
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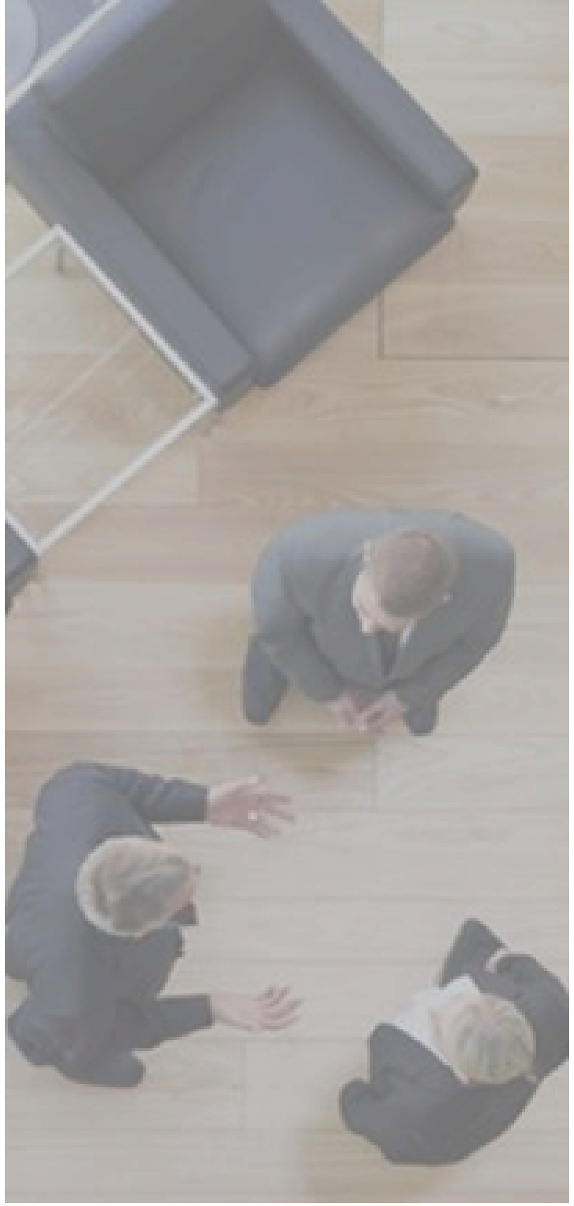

Summary

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Macro and market views

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Macro and Market Views

Macro		– Rising policy uncertainty and tariff concerns are starting to weigh on US domestic investment and consumption. Expect small business activity and employment to be hit by a halt in import shipments and freeze on investments. – In the eurozone, consumer confidence is supported by continued ECB rate cuts. 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 now 4.2%). – Positive on US Treasuries; prefer intermediate (5-7 year) maturities. US, Euro central banks to cut benchmark rates to 4%, 1.75% 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 raised to 2.75%.
Credit	+	– We stay Positive given solid corporate balance sheets and cash flows, strong technicals, high carry and low volatility. We prefer intermediate maturities in the eurozone and in the US. – We continue to like EUR IG corporate bonds, and we stay Positive on UK IG corporates (offering a 5.5% average yield).
Equities	=	– We maintain a Neutral strategic view on Equities. Potential for a further short-term rebound on excessive pessimism and prospect of softening US policy. – Favour UK, Japan, 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. – We downgrade Europe Insurance from Positive to Neutral, Media from Neutral to Negative.
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 long-term (buy on dips) as EM central banks continue to make strategic purchases and Asian households remain buyers. Gold 12m target USD 3300/ounce. – Negative stance on Oil, price range for Brent crude oil of USD 55-65 on weaker global oil demand, potentially higher non-OPEC oil & gas supply and an expected reduction of OPEC+ production quota cuts in 2025.
FX		– The prospect of much weaker US growth, a lower Fed Funds rate and capital flows from the US back to Europe/Middle East/Asia suggest a weaker US dollar. – Our EUR/USD 3-month target **USD 1.12** and our 12-month target **USD 1.15** (value of one EUR). We change our 12-month USD/CNY target to CNY 7.20 (value of one USD)

Asset Allocation

Allocation changes this month:

- ❑ Equities: We downgrade Europe Insurance from Positive to Neutral, Media from Neutral to Negative.

- ❑ Bonds: We increase our German 12-month target for the bund yield to 2.75% from 2.50% and our 12-month target for the UK 10Y gilt yield to 4.20% from 4%. We stay Positive on EU core govies but reduce recommended maturities to intermediate. Conversely, we increase maturities to intermediate from short in the US.

- ❑ FX: USD/CNY: we change our 3- and 12-month targets to 7.20 (value of one USD). EUR/SEK: We maintain our 3-month target at 11 and we change our 12-month target to 10.70 (value of one EUR).

- ❑ Commodities: No change

- ❑ Alternatives: No change

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	1.5	1.5	3.0	3.3	US Fed Funds Rate	4.50	4.50	3.75	US 10Y yield %	4.46	4.25
Eurozone	1.1	1.3	2.1	1.9	ECB Deposit Rate	2.25	1.75	1.75	Euro 10Y yield %	2.51	2.75
Japan	0.7	0.4	3.3	2.1	Bank of Japan Policy Rate	0.50	0.50	1.00	UK 10Y Yield %	4.64	4.20
UK	1.2	1.0	3.3	2.6	Bank of England Base Rate	4.25	4.00	3.50	S&P 500	5970	n/a
China	4.8	4.5	0.0	1.0	China 7D reverse repo rate	1.40	1.30	1.00	Euro STOXX 50	5375	n/a
									Oil Brent USD/bbl	65	55-65
									Gold USD/oz	3349	3300

Source: BNP Paribas WM. As at 3 June 2025

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Bonds

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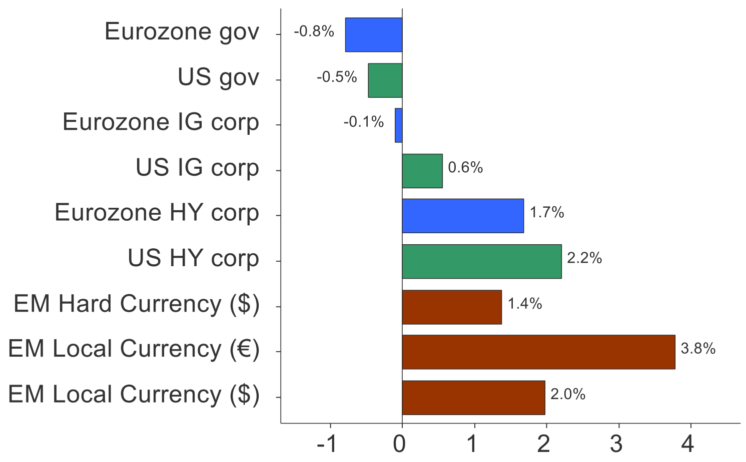
Fixed Income at a glance

Since the beginning of April, long-dated interest rates have increased significantly, reaching multi-year highs in the US, Germany and Japan. Concerns about US deficits and debt levels have resurfaced. Nevertheless, in this environment, credit has held up remarkably well, with spreads retracing most or all of the recent widening.

We increase our German 12-month target for the bund yield to 2.75% from 2.50%. We continue to favour high-quality, highly liquid bonds, particularly US, UK and core EU sovereign bonds, US TIPS and EUR investment grade corporate bonds.

10-year yield	03/06/2025	12-month target
US	4.46	4.25
Germany	2.51	2.75 ▲
UK	4.64	4.20 ▲

Returns over one month



Source: LSEG Datastream, Bloomberg and JPM indices, 22/05/2025

Central Banks

The market has moved closer to our expectations of two rate cuts in the US, the eurozone and the UK this year and one rate hike in Japan. We anticipate terminal rates of 3.50% in the US by mid-2026, 1.75% in the eurozone by July 2025, 3.50% in the UK by March 2026, and 1.25% in Japan by late 2026.

Government Bonds

We increase our German 12-month target for the bund yield to 2.75% from 2.50%. We stay Positive on EU core govies but reduce recommended maturities to intermediate. Conversely, we increase maturities to intermediate from short in the US. We stay Positive on UK government bonds and US inflation-linked bonds.

Peripheral bonds

Periphery economies are performing well, which justifies the current level of tight spreads. We project stable spreads over the next 12 months.

Corporate Investment Grade (IG) Bonds

We prefer EUR IG (Positive view) over USD IG (Neutral view) given its better credit metrics and lower volatility. We prefer maturities up to 7 years in the eurozone and up to 5 years in the US.

Corporate High Yield (HY) Bonds

After the full retracement of the widening post "Liberation Day", HY has become expensive again. We expect wider spreads, as economic growth in the US is set to slow down. EUR HY should outperform USD HY.

Emerging Market (EM) Bonds

While we do expect EM central banks to cut rates, this is already priced in. In terms of FX, at an index levels, we expect a modest decline of EM currencies against the EUR, and a marginal gain of EM currencies versus the USD.

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Currencies

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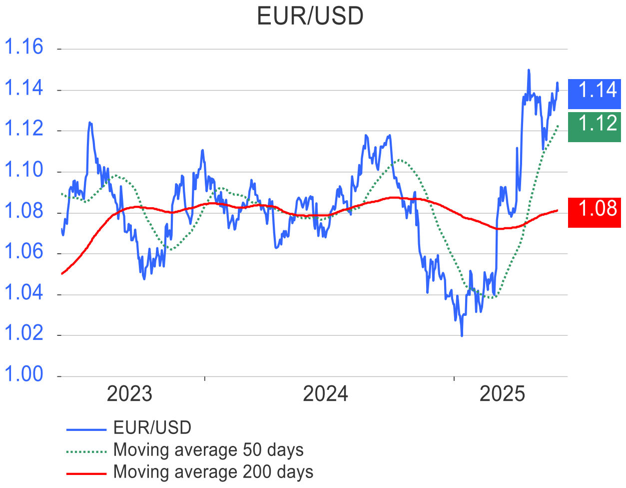
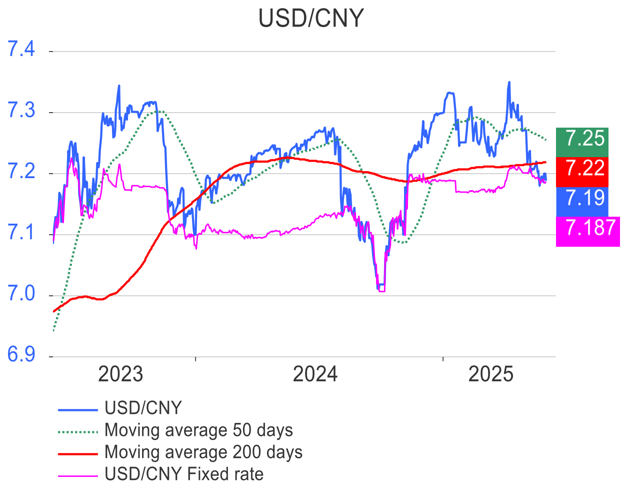
Currencies at a glance

1. **EUR/USD:** We expect uncertainty to remain very high over the coming months specifically in light of the recent announcement regarding EU tariffs. The interest rate differential should not be supportive for the USD and investors are questioning the US exceptionalism. **We maintain our 3-month target at 1.12 and our 12-month target at 1.15 (value of one EUR).**
2. **USD/CNY**: PBoC has continued to maintain the USDCNY fixing around the 7.20 level despite the reduction in US trade tariffs. Two scenarios need to be monitored: either tariffs are reintroduced, leading to a sharp depreciation of the CNY , or the 20% blanket fentanyl tariff is removed, leading to a sharp appreciation. **For the time being, we are changing our 3- and 12-month targets to 7.20, as we are considering that US tariffs on China will remain at their current level.**



Source: LSEG Datastream, 03/06/2025



Source: LSEG Datastream, 03/06/2025

>> TARGET 12M EUR/CHF: 0.94

The SNB cut rates by 25bp in March to 0.25%. Improved growth prospects in Europe are rather supportive of the euro. However, the key risk remains tariffs on pharmaceuticals, as pharma accounts for more than 30% of Swiss goods exports to the US. High uncertainty remain supportive CHF. **Our 3-and 12-month EUR/CHF targets are 0.94 (value of one EUR).**

>> TARGET 12M USD/JPY: 140

The BoJ held its monetary policy at 0.50% in May. The combination of a hawkish Bank of Japan and slowing US data in the coming months should help sustain upward potential for the JPY. We expect to see the JPY benefitting from more rotation out of US assets. **Our 3-month target is 145 and our 12-month target is 140 (value of one USD).**

>> TARGET 12M EUR/NOK: 11.30

Norges Bank kept its key interest rate at 4.5% in March. We believe that additional fiscal stimulus and a positive interest rate differentials should provide support. Nevertheless, lower oil prices amid weaker global growth expectations are not supportive. **Our 3-month EUR/NOK target is 11.60 and our 12-month target is 11.30 (value of one EUR).**

>> TARGET 12M EUR/GBP: 0.87

The BoE cut interest rates by 25bp to 4.25% in May. Weak UK growth and fiscal vulnerabilities could weigh on the GBP. UK growth is constrained by higher bond yields, which in turn may lead to further fiscal pressures. **Our 3-month target is 0.85 and our 12-month target is 0.87 (value of one EUR).**

>> TARGET 12M EUR/SEK: 10.70

The Riksbank left its key rate unchanged at 2.25% in May. The reduced potential for further rate cuts, coupled with the interest rate differential, should continue to support the SEK. **Our 3-month EUR/SEK target is 11 and we change our 12-month target to 10.70 (value of one EUR).**

>> TARGET 12M USD/CAD: 1.40

The Bank of Canada left the policy rate unchanged at 2.75% in April. We continue to expect trade uncertainty to weigh on the CAD. Tariff cuts are possible if a border deal is reached, but this is offset by the risk of additional tariffs on other strategic goods. **Our 3-month and 12-month targets are at 1.40 (value of one USD).**

Forex at a glance

FX FORECASTS EUR

	Country		Spot 03/06/2025	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1.14	Neutral	1.12	Neutral	1.15
	United Kingdom	EUR / GBP	0.84	Neutral	0.85	Negative	0.87
	Japan	EUR / JPY	163.80	Neutral	162	Neutral	161
	Switzerland	EUR / CHF	0.94	Neutral	0.94	Neutral	0.94
	Australia	EUR / AUD	1.76	Positive	1.70	Negative	1.80
	New-Zealand	EUR / NZD	1.90	Neutral	1.87	Neutral	1.92
	Canada	EUR / CAD	1.56	Neutral	1.57	Negative	1.61
	Sweden	EUR / SEK	10.94	Neutral	11.00	Positive	10.70
	Norway	EUR / NOK	11.55	Neutral	11.60	Positive	11.30
Asia	China	EUR / CNY	8.19	Neutral	8.06	Neutral	8.28
	India	EUR / INR	97.51	Neutral	98.56	Negative	101.20
Latam	Brazil	EUR / BRL	6.43	Neutral	6.50	Negative	6.90
	Mexico	EUR / MXN	21.92	Negative	22.40	Negative	23.00

Sources: BNP Paribas, LSEG

FX FORECASTS USD

	Country		Spot 03/06/2025	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1.14	Neutral	1.12	Neutral	1.15
	United Kingdom	GBP / USD	1.35	Negative	1.32	Negative	1.32
	Japan	USD / JPY	143.78	Neutral	145.00	Positive	140.00
	Switzerland	USD / CHF	0.82	Neutral	0.84	Neutral	0.82
	Australia	AUD / USD	0.65	Positive	0.66	Neutral	0.64
	New-Zealand	NZD / USD	0.60	Neutral	0.60	Neutral	0.60
	Canada	USD / CAD	1.37	Negative	1.40	Negative	1.40
Asia	China	USD / CNY	7.19	Neutral	7.20	Neutral	7.20
	India	USD / INR	85.59	Negative	88.00	Negative	88.00
Latam	Brazil	USD / BRL	5.64	Negative	5.80	Negative	6.00
	Mexico	USD / MXN	19.24	Negative	20.00	Negative	20.00
EMEA	South Africa	USD / ZAR	17.89	Neutral	18.00	Positive	17.50
	USD Index	DXY	99.23	Neutral	100.88	Neutral	98.52

Sources: BNP Paribas, LSEG

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Equities

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Stocks rebound on reduced tariffs. Uncertainties discarded by the market.

The risks are still there

- **The risk of a recession is now decreasing after sharply increasing in April.** The US administration has toned down its vocal calls for large tariffs on some key trading partners after realising the potential damage to its own economy. Some agreements have been reached, or are close to being finalised, with certain countries. The ridiculously high tariffs imposed on Chinese goods in April have been reduced to a more manageable level.
- However, **historically high tariffs are going to be implemented (see chart on this page), which will lead to lower growth and pressure on profit margins.** This has been disregarded by the market during the recent equity recovery. Moreover, rising yields are reducing US consumer purchasing power and corporate investment. At the same time, upside inflation risks remain elevated.
- **US equities have become expensive once again.** The recent recovery was driven primarily by retail investors who probably did not fully understand the long-term consequences of tariffs. US P/E levels are now back above 20 (see the table on this page), which is a level at which institutional investors are reluctant to buy, particularly given the fairly optimistic earnings forecasts in the US.
- **Although there are still opportunities to be found in the US market, which is very deep, we continue to recommend diversifying away from US equities, particularly following the recent rebound.**

Main recommendations

We remain cautious about US equities. Many economic actors are losing confidence. Uncertainty will lead to lower consumption, investment and job creation. While the recent positive news regarding tariffs and the frontloading phenomenon (heavy precautionary purchases before tariffs are implemented) have alleviated some of these concerns, it is only a matter of weeks, if not days, before US hard data follows the downward trend of US soft data (very weak confidence indicators).

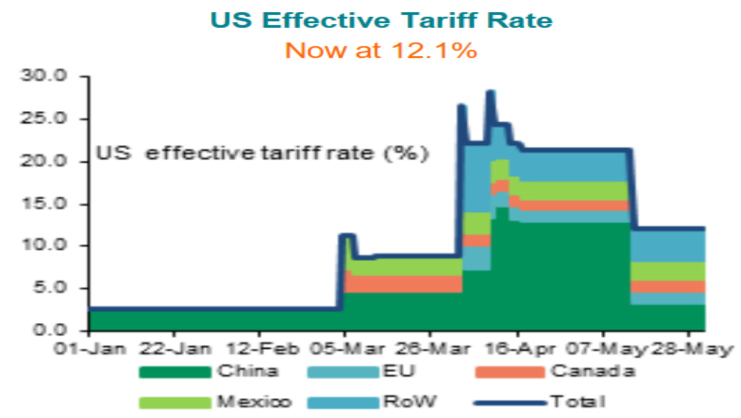
Therefore, we should diversify in terms of both asset classes and geography. In Europe, we favour select themes such as electrification, infrastructure and EU strategic autonomy. Furthermore, supported by sizeable fiscal stimuli, a market segment worth revisiting is European SMID caps. They are trading cheaply relative to large caps, and their Q1-25 results have been strong.

At contrary, we downgrade EU Insurance from Positive to Neutral as it is no longer cheap after a strong rally this year.

We downgrade EU Media sector from Neutral to Negative as it is expensive and there are still questions relating to growth and the impact of AI.

The key risk for equities is a US recession, which would cause earnings growth to turn negative in most major markets. A stagflationary episode in the US that causes the Fed to raise interest rates would be a kind of Black Swan event. Rising yields in various parts of the world also need to be monitored.

EXPECTED TARIFFS STILL HIGH DESPITE RECENT REDUCTIONS



Source: BNP Paribas Exane

US EQUITIES: EXPENSIVE, OPTIMISTIC EARNINGS GROWTH

21-05-25	PE				EPS Growth - %			
	2025	2026	2027	12m fwd	2025	2026	2027	12m fwd
MSCI USA	**23,0**	**20,2**	**17,8**	**21,7**	**9,5**	**13,7**	**13,6**	**11,2**
MSCI USA ENERGY	16,8	14,0	11,3	15,5	-14,5	20,3	22,2	-1,3
MSCI USA MATERIALS	20,8	17,9	15,6	19,4	2,7	16,2	14,3	8,6
MSCI USA INDUSTRIALS	25,3	21,9	19,3	23,7	11,3	15,7	13,5	13,7
MSCI USA CONS DISCR	30,9	26,7	22,6	29,0	2,3	15,8	17,7	8,1
MSCI USA CONS STAPLES	22,3	20,8	19,2	21,6	0,5	7,4	8,2	3,5
MSCI USA HEALTH CARE	16,4	14,8	13,2	15,7	16,2	11,1	11,8	13,8
MSCI USA FINANCIALS	17,5	15,4	13,2	16,5	4,6	13,3	12,7	8,4
MSCI USA IT	30,1	25,9	22,7	27,8	19,3	16,5	13,9	17,2
MSCI USA COMM SERVICES	19,7	18,0	15,8	18,9	16,9	9,3	13,7	13,4
MSCI USA UTILITIES	18,4	17,0	15,8	17,8	5,3	8,0	7,7	6,4

Source: BNP Paribas, DataStream, IBES

Asian Equities view

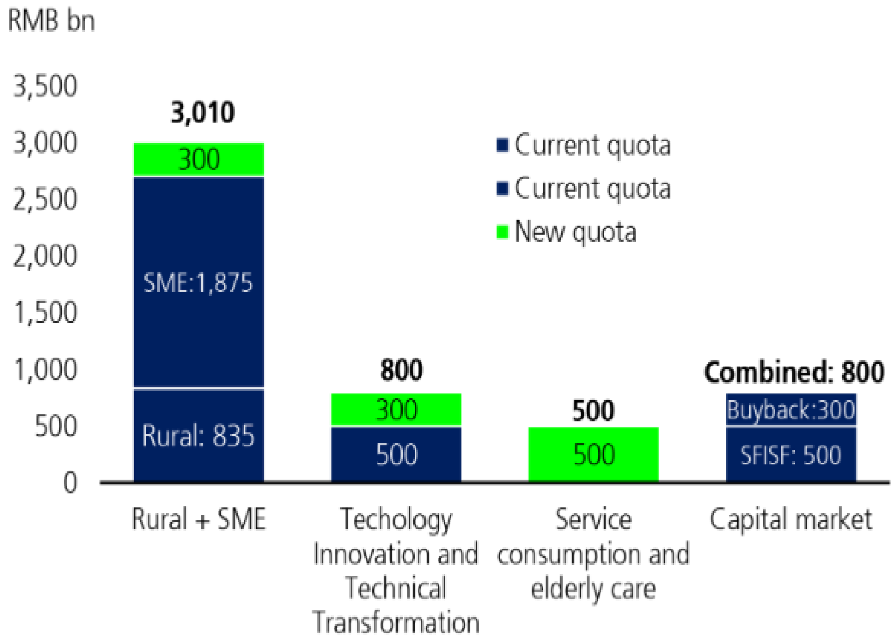
ASIA COUNTRY PREFERENCE

+	=	–
COUNTRY		
China Singapore South Korea Indonesia	Taiwan, Thailand Malaysia Philippines India	-

- **China –** US-China tariff de-escalation was larger than expected, with the Hang Seng Index up 6.7% month-to-date (MTD) and fully recovered from losses incurred on 2 April. Valuations for Hong Kong and Chinese equities remain attractive in a regional context, with potential for a "policy put" to support the economy and stock markets. In early May, before the US-China trade talks, the PBoC announced another monetary stimulus package, releasing more than RMB 2 trillion (USD 280 billion) of liquidity in total.
- Looking ahead, we anticipate continued range-bound trading in Hong Kong/China equities in the short term, as the market requires catalysts to break out of its current range. What are the possible catalysts? i) better-than-expected stimulus measures; ii) earnings and guidance from Chinese tech companies that beat consensus forecasts, or iii) a significant de-escalation in US–China tensions.

China equities need catalysts for further upside after the strong rally YTD

The PBoC's 50bp RRR cut is equivalent to a liquidity injection of RMB 1 trillion. China's expansion of relending facilities will increase liquidity by a further RMB 1.1 trillion.



Source: CEIC, UBS, as of 7 May 2025
*Note: *SFISF: Securities, Funds and Insurance companies Swap Facility; Buyback: Share Buybacks and Shareholding Facility*

05

Commodities

Commodities at a glance

Following a decent performance in Q1, **industrial metals** have fallen amid fears of a major global growth slowdown caused by the trade war. Copper has seen some upfront buying due to fears of US tariffs (copper has been exempted for the time being).

Year-to-date, copper is up 9%, tin is up 14%, but aluminium is down 2%, iron ore is down 4%, and zinc is down 10%.

BASE METALS

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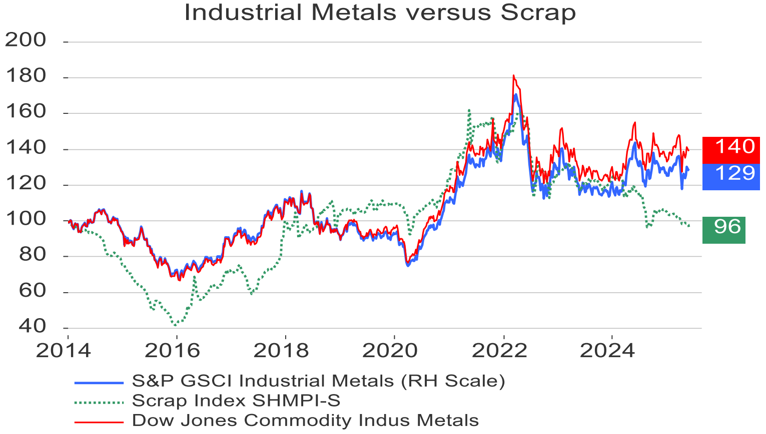
In view of the expected economic slowdown due to the trade war, **we remain Neutral in the short term.** In the longer term, however, we still expect growing demand for energy transition and infrastructure to outpace expected supply growth.



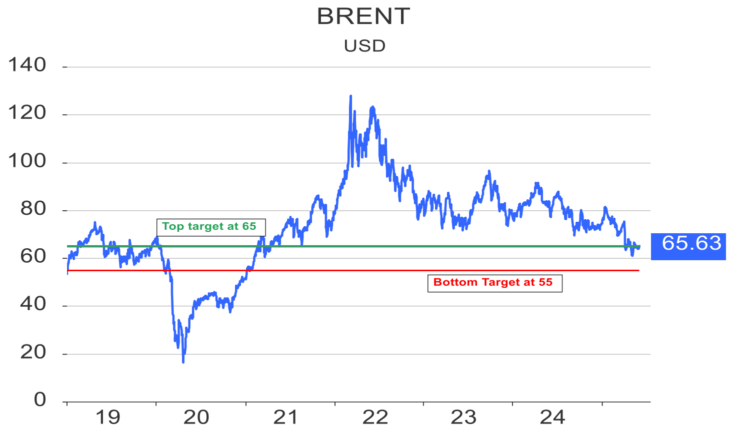
Source: LSEG Datastream, 03/06/2025

Following a sharp decline in April (From USD 75 to USD 60), the price of **Brent** partially recovered in the first half of May (to USD 66), thanks to a less bearish macroeconomic outlook (the temporary US-China trade deal) and rumours that Israel was preparing to attack Iranian nuclear installations. However, OPEC+ production hikes and a lack of discipline will probably continue to weigh on oil prices.

OIL

—

We maintain our Negative view, with a target range of 55-65 USD, given the potential for further downside risks, including slower global growth, Trump's policy of favouring lower oil prices, substantial non-OPEC supply growth, OPEC+ production hikes (and a lack of discipline), and the possible lifting of sanctions in the event of deals with Russia and Iran.



Source: LSEG Datastream, 03/06/2025

Gold price has only corrected slightly since its early May peak, and has risen again in recent days due to renewed trade tensions, concerns about the high US deficit and debt levels, and the lack of resolution to the conflicts in Russia/Ukraine and Israel/Gaza.

Gold has risen by 28% year-to-date and by 67% since the beginning of 2024.

Our 12m target is USD 3300/ounce.

GOLD

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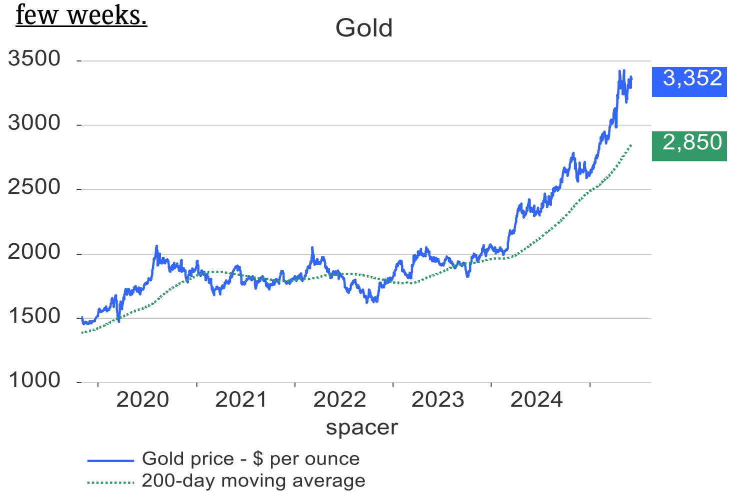
Following the sharp rally, we adopted a Neutral stance last month, anticipating a potential de-escalation of the trade war and a possible ceasefire in Ukraine. However, as negotiations between the US and EU, as well as between Russia and Ukraine, are not going in the right direction, and concerns about high US deficits and debts are growing in the market, gold is finding renewed support from safe-haven investors. **We stay Neutral for the time being, but will be watching these developments closely over the next few weeks.**



Source: LSEG Datastream, 03/06/2025

Our position for this month

Evolution of our position from last month

06

Alternative Investments

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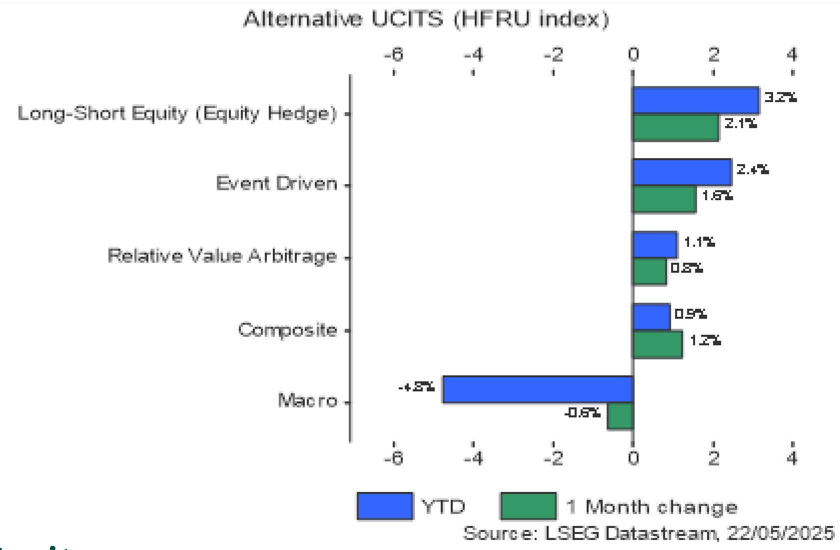
Alternative Investments

The past month was also generally positive except for Macro.

Since January, performance has generally been positive, except for Macro, while Long-Short equity have been the best performers.

Positive opinion on Long-Short equity and Relative Value.



Global Macro

Neutral: Both discretionary macro and CTAs tend to hold significant amounts of uninvested cash, primarily because they use futures and derivatives. Therefore, by definition, these strategies offer "cash + alpha" returns, as they now benefit from higher interest rates. Markets are contending with the unpredictability of the new Trump administration.

Event Driven

Neutral (from Positive): Trump's erratic policies have been putting a damper on new deals. CEOs are also likely to reconsider their corporate strategies in view of policies such as tariffs. Year-to-date, corporate activity has been flat compared with last year's already low volume, with cross--border deals into the US being particularly rare. Higher funding costs and a potential economic slowdown or recession are bound to create new distressed investment opportunities.

Long/Short Equity

Positive: Market breadth has recently improved following a period of concentrated outperformance among the 'Magnificent Seven'. Intra-market equity dispersion has returned to historically high levels, with a significant disparity between expensive and cheap stocks. This paves the way for more favourable opportunities for long- and short-term stock selection.

Relative Value

Positive: Credit dispersion may increase further as high-yield companies react to 'higher for longer' interest rates as their debt matures. Convertible bond arbitrage strategies are benefiting from increased issuance and refinancing/liability management, provided the credit quality remains high enough. Government bond relative value arbitrage should also benefit from diverging monetary policies and inflation, offering less risk than directional macro trades.

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