BNP PARIBAS
WEALTH MANAGEMENT

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OCTOBER 2025

# Investment Navigator
## Asia Edition

# What Are the Ingredients for a Year-End Rally?

One of the most frequent questions we receive is:

> **"What is the probability of a year-end rally in global equities?"**

This question resonates with investors as we approach the final stretch of the year, a period often characterised by heightened expectations and strategic decision-making. To answer this, we turn to the four key ingredients that typically set the stage for a rally.

Understanding how these elements interact, especially in the context of year-to-date market performance and broader macroeconomic dynamics, is critical for assessing the likelihood of a strong finish to the year. Let us take a closer look at what is driving the optimism – and the risks that could stand in the way.

1. Easing Global Financial Conditions
2. Solid Corporate Earnings
3. Favourable Seasonality
4. Investor Positioning


Prashant BHAYANI
Chief Investment Officer
Asia
BNP Paribas
Wealth Management

Grace TAM
Chief Investment Adviser
Hong Kong
BNP Paribas
Wealth Management

Dannel LOW
Investment Strategist
Asia
BNP Paribas
Wealth Management

## 1. Easing Global Financial Conditions

The Federal Reserve's Pivot as we wrote about in September's Investment Navigator has finally begun. We currently expect two further rate cuts from the US Federal Reserve this year – one in October and another in December – followed by two more cuts in the first half of next year.

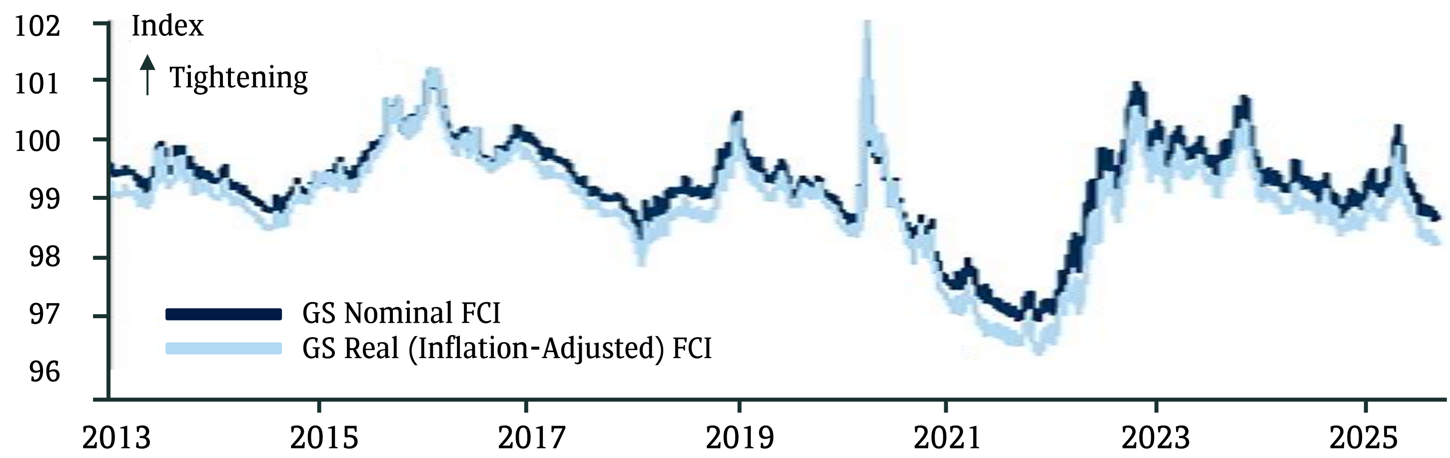
Meanwhile, although we do not anticipate further easing from the European Central Bank (ECB), it has implemented significant cuts, lowering rates by more than 200 bps since May 2024.

In contrast, China continues to grapple with a deflationary environment, not an inflationary, and is maintaining both monetary and fiscal easing measures.

Credit spreads are tight, and the US dollar has weakened. This combination boosts global liquidity and allows emerging market central banks to join in the rate-cutting cycle. The loosening of financial conditions is typically a leading indicator, though it tends to act with a lag. As a result, global equities could see a further boost in the fourth quarter, despite already strong performance year-to-date.

Figure 1: **Financial conditions continue to ease – tailwinds for asset markets**

**GS US Financial Conditions Indices (FCI)**




*Source: Datastream, BNP Paribas Exane, Goldman Sachs, as of 26 Sep 2025*
*Past performance is not indicative of current or future performance.*

## 2. Earnings Matter

In the US, earnings exceeded expectations in the second quarter. In Europe, while earnings were more restrained – partly due to a stronger currency – consensus still points to double-digit earnings growth next year. Meanwhile, earnings revisions in China appear to be bottoming out, with forecasts calling for double-digit growth by 2026. In Japan, companies are quietly delivering record share buybacks, driven by strong earnings this year, which are forecasted to grow by 10%.

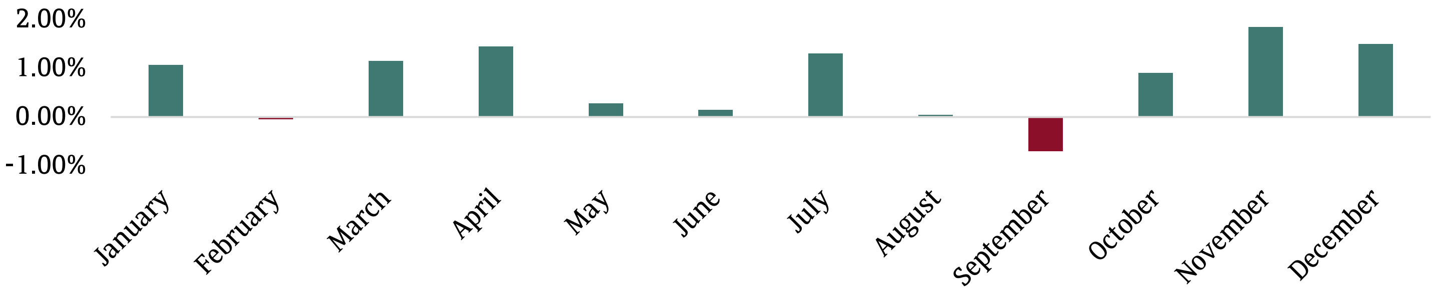
The key driver behind this global earnings growth trend is the absence of a major economic slowdown over the next 15 months. While we do not anticipate significant further multiple expansion – particularly in the US – equities can still appreciate, albeit likely at a more moderate pace if this trend continues.

## 3. Seasonality

Seasonal trends can impact markets as well. The S&P 500 generally shows robust Q4 seasonality with a win rate of 74% and average return of +4.2% since 1950 *(see Figure 2)*. Similarly, Europe also has a 68% positive quarters and an average return of +2.8% since 1998. That said, these figures represent averages. For instance, in 2022, the S&P 500, Euro Stoxx 600, and Shanghai composite all declined during the fourth quarter. The key will be a continuation of a "Goldilocks" economic narrative: soft landing in GDP and a more gradual or controlled pickup in inflation.

Figure 2: **Seasonality suggests Q4 typically strongest quarter**

**Average monthly returns of S&P 500 since 1950**




*Source: Bloomberg, BNP Paribas WM, as of 8 October 2025.*
*Past performance is not indicative of current or future performance.*

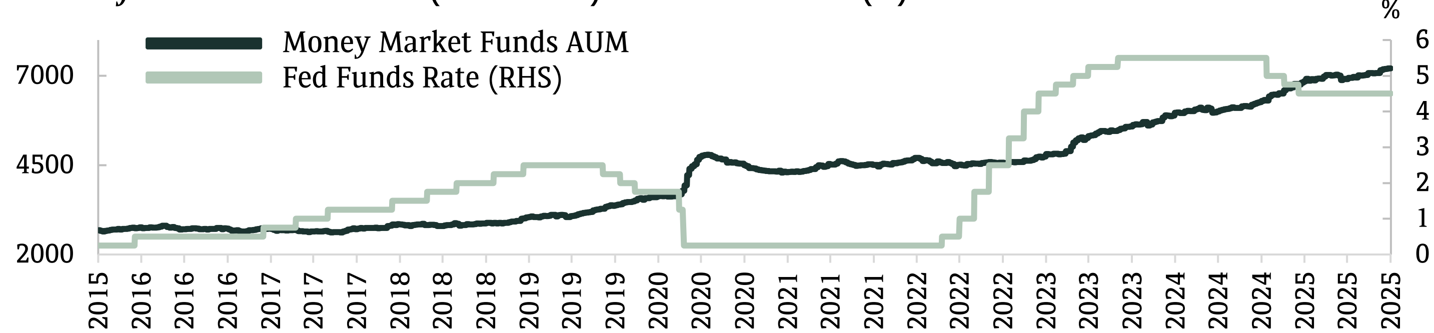
## 4. Positioning

Even after the strongest equity rally since the pandemic, positioning is higher but still not extended yet. Global fund managers remain bullish on equities. Hedge funds are running sizeable gross portfolios (short plus longs), but their net exposure to the market remains moderate by historical standards.

Retail investors are currently the most bullish, with US retail investors leading the charge at near record high levels. However, sentiment indicators are not at alarming levels in terms of American Association of Individual Investors (AAII) surveys. Therefore, while a correction is both overdue and expected, current sentiment does not point to a macro market top.

Figure 3: **Record cash on the sidelines waiting to deploy**

**US Money Market Funds Assets (USD billion) vs Fed Funds Rate (%)**




*Source: Bloomberg, BNP Paribas WM, as of 4 September 2025.*
*Past performance is not indicative of current or future performance.*

## Risks to the Rally?

1 Any larger-than-expected drop in economic growth and unexpected pick up in inflation could lead to more than a small correction. Historically, stagflation has been the most unfavourable scenario for both stocks and bonds.

2 A breakdown in the trade framework deals announced thus far, or a loss of momentum toward a US-China trade deal, could dampen business capital expenditures and investment activity.

3 Any slowdown in AI-related capex, which has been revised upward throughout the year, would likely weigh on equities, particularly US equities. Given the market's concentration in the technology sector, such a slowdown could also have ripple effects across Taiwan, China tech, and Korea.

4 Any major escalation in geopolitical conflict could drive oil prices significantly higher, posing a potential headwind for a year-end rally.

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## Is the stage set for a year end rally?

- Global financial conditions continue to loosen, which is typically a strong tailwind for risk assets.
- Seasonality suggests a Santa Claus rally given Q4 is usually the strongest quarter of the year.
- Economic resilience and strong corporate earnings provide fundamental reasons to remain bullish.
- Investor positioning is likely to support risk assets, as the pace of rotation away from money market funds picks up, driven by the forecast of lower interest rates.
- We think that momentum is likely to stay, given the strong increase in risk appetite.
- With that, we are now **Overweight on Global Equities**. Region wise, we are **Neutral on US and EU equities**, and **Overweight on Japan as well as Emerging Markets (including China)**.

# Overview of our CIO Asset Allocation for October 2025

| | Views Current | Views Prior | Constituents | We like | Comments |
|---|---|---|---|---|---|
| EQUITIES | + | = | Markets | UK, Japan, Brazil, Mexico, China, South Korea, Singapore | ■ **Upgrading equities to Overweight:** Global equity markets are showing incredible strength on the back of economic resilience. **We upgrade US equities to Neutral over lower rates, and downgrade EU equities to Neutral given potential FX headwinds.** |
| | | | Sectors | Overweight Healthcare and Utilities.<br>For Europe: Financials, Industrials, Materials | ■ **For US, we upgraded Info Tech and Consumer Discretionary to Neutral.** For EU, construction materials have been downgraded from Overweight to Neutral. |
| | | | Styles/ Themes | Megatrend Themes | ■ Circular economy, electrification, security & income themes. |
| BONDS | = | = | Govies | Eurozone, UK, US | ■ We stay Overweight on US (prefer shorter term 2-5 years), UK and German government bonds and US TIPS.<br>■ Our 12-month US 10Y yield target remains unchanged at 4.25%. |
| | + | + | Segments | EUR and GBP Investment grade | ■ **We continue to like EUR and GBP investment grade corporate bonds.**<br>■ **We upgrade EM bonds (local currency) to Overweight** on expectations of further USD weakness. Remain Neutral on EM bonds (USD) and High Yield |
| CASH | - | - | | | |
| COMMO-DITIES | + | + | | Gold | ■ **Longer-term Overweight on Gold and Silver.** Given that prices have hit our target price of $4000/oz and $50/oz respectively, some near term consolidation can be expected.<br>■ **Oil – Still Underweight.** Brent target range is **$60-70**.<br>■ **Base metals – Overweight, especially Copper (LME) with a target range of $11,000 - $12,000.** |
| FOREX | | | EURUSD | | ■ 12-month target at 1.24 |
| | | | CNHUSD | | ■ 12-month target at 7.10 |
| ALTER-NATIVE | + | + | | Hedge funds (global macro, long-short equities, relative value) | ■ Neutral on event driven strategy |

Note: + Overweight / = Neutral / - Underweight

# GDP & CPI Forecasts

| | | GDP (YoY%) | | | CPI (YoY%) | | |
|---|---|---|---|---|---|---|---|
| | | 2024 | 2025f | 2026f | 2024 | 2025f | 2026f |
| Developed | US | 2.8 | 1.7 | 1.5 | 2.9 | 2.8 | 3.4 |
| | Japan | 0.1 | 1.3 | 0.6 | 2.7 | 3.2 | 2.5 |
| | Eurozone | 0.9 | 1.3 | 1.4 | 2.4 | 2.1 | 1.8 |
| | UK | 1.1 | 1.3 | 1.0 | 2.5 | 3.5 | 2.7 |
| North Asia | China | 5.0 | 5.0 | 4.5 | 0.2 | 0.0 | 1.0 |
| | Hong Kong* | 2.5 | 1.5 | 1.9 | 1.7 | 1.9 | 2.2 |
| | South Korea | 2.0 | 1.0 | 2.0 | 2.3 | 2.1 | 2.0 |
| | Taiwan | 4.6 | 5.3 | 2.0 | 2.2 | 1.6 | 1.4 |
| South Asia | India | 6.5 | 7.0 | 6.5 | 4.6 | 2.9 | 4.5 |
| | Indonesia | 5.0 | 4.8 | 4.9 | 2.3 | 1.9 | 2.5 |
| | Malaysia | 5.1 | 4.2 | 3.6 | 1.8 | 1.4 | 1.7 |
| | Philippines* | 5.7 | 5.5 | 5.8 | 3.2 | 2.6 | 2.9 |
| | Singapore | 4.4 | 2.5 | 1.5 | 2.8 | 0.7 | 1.4 |
| | Thailand | 2.5 | 2.2 | 1.5 | 0.4 | 0.0 | 0.5 |

*Source: BNP Paribas Group Economic Research, BNP Paribas Global Markets forecasts as of 30 September 2025*
*Note: India's forecasts are for the fiscal year (April–March).*
** IMF data and forecasts as of 30 September 2025*

## GROWTH

- The US economy's comeback in the second quarter was revised higher again. Q2 GDP grew at an annualised rate of 3.8% at the final estimate, significantly higher than initial estimates. The economic momentum is likely to carry through into Q3, underscoring the resilience of the world's largest economy. This is also one of the reasons why risk appetite across the board has risen. Our 2025 full year GDP forecast has since been revised higher to 1.7%, from 1.6% previously.

- The Eurozone growth is showing surprising resilience despite ongoing geopolitical challenges. The trade agreement with US has reduced major risks and should support moderate activity next year. However, there are lingering concerns regarding political stability in France. We now forecast a 1.3% full year growth for 2025, followed by a 1.4% growth in 2026.

## INFLATION

- US inflation accelerated to 2.9% for September 2025. The increase was generally considered to be gradual and within expectation. The Federal Reserve also found it comfortable enough to resume their rate cutting cycle and lowered rates by 25bps in the September FOMC. Their focus was on addressing the weakness in the labour market, although according to the minutes, many policymakers still emphasised that the risks to the inflation outlook remained tilted to the upside.

- Inflation in the Euro Area rose to 2.2% for September, up from 2.0% in the previous three months, and slightly above the ECB target. We stick to the assumption that the rate cut cycle for the ECB is over and the deposit rate will stay at 2% for the coming year. The risks on the growth side are balanced, and inflation is on target.

# Equities

OVERWEIGHT NEUTRAL UNDERWEIGHT

## OVERALL GLOBAL: ▲OVERWEIGHT

| Overweight | Neutral | Underweight |
|---|---|---|
| **COUNTRY** | | |
| UK, Japan<br>Emerging Mkt | ▲ US<br>▼ Eurozone | |
| **SECTOR** | | |
| Healthcare<br>Utilities | Comms.<br>Real Estate<br>Financials<br>Materials<br>Industrials<br>▲ Consum. Discre.<br>▲ Technology | Consumer Staples<br>Energy |

## OVERALL ASIA: OVERWEIGHT

| Overweight | Neutral | Underweight |
|---|---|---|
| **COUNTRY** | | |
| China<br>Singapore<br>South Korea | Taiwan<br>India, Malaysia<br>Philippines<br>Indonesia | Thailand |
| **SECTOR** | | |
| Comms.<br>Consum. Discre.<br>Consumer Staples<br>Technology | Materials<br>Real Estate<br>Financials<br>Healthcare<br>Utilities | Industrials<br>Energy |

- **We turn Overweight on equities overall** – Global equity markets are showing incredible strength on the back of economic resilience, solid earnings across the board as well as easy monetary positioning. **Additionally, share buybacks and potential rotation from money market funds are possible tailwinds for the bull market to continue.**
- Country wise, we are now **Neutral on US equities** despite long term fundamental concerns. **With our updated expectations of further rate cuts from the Federal Reserve, it will be difficult to fight the Fed** as the S&P 500 has historically performed well during non-recessionary rate cut periods. **EU equities is now Neutral in our view, primarily due to FX headwinds.**

- **We prefer non-US equities, such as Japan, UK and China.**
- **Japan: We reiterate our Overweight call**, due to a constructive global economy, a recovery in the Japanese economy driven by external and internal forces (e.g. wage growth), solid corporate earnings and ongoing reforms. **The latest political development with Takaichi as Prime Minister may also further galvanise JP equities.**
- **China: We stay Overweight on Chinese equities as there is room for further upside.** Valuations remain reasonable, while flows continue to improve on the back of a strong AI narrative. **We continue to like China tech sector and high dividend stocks in the HK/China financial and China telecom sectors.**

| | | 1-month (%) | YTD (%) | 2024 (%) | Dividend Yield (%) | 12M Fwd PE (x) | Trailing PB (x) | 12M Forward ROE (%) | EPS Growth Past 12M (%) | EPS Growth 12M Fwd (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| Developed | US | 3.8 | 15.0 | 23.9 | 1.1 | 25.9 | 4.9 | 29.4 | 27.8 | 15.1 |
| | Japan | 1.4 | 21.1 | 6.3 | 2.3 | 17.9 | 1.6 | 12.1 | 11.9 | 8.3 |
| | Eurozone | 3.4 | 31.4 | -0.3 | 2.8 | 16.4 | 2.0 | 17.2 | 25.8 | 19.8 |
| | UK | 2.6 | 28.4 | 7.5 | 3.2 | 14.0 | 2.0 | 21.0 | 13.2 | 10.1 |
| North Asia | China | 3.3 | 25.3 | 7.0 | 1.4 | 21.6 | 2.6 | 15.2 | 17.0 | 35.2 |
| | Hong Kong | 5.6 | 38.9 | 24.2 | 2.9 | 12.4 | 1.4 | 13.5 | 32.3 | 16.1 |
| | South Korea | 7.7 | 52.4 | -21.7 | 1.4 | 13.1 | 1.3 | 12.8 | 29.0 | 33.8 |
| | Taiwan | 8.2 | 25.8 | 24.0 | 2.5 | 20.1 | 3.0 | 24.6 | 32.4 | 31.4 |
| South Asia | India | 1.9 | -0.7 | 12.7 | 1.1 | 21.5 | 3.3 | 19.7 | 13.1 | 13.2 |
| | Indonesia | 0.1 | 6.0 | -0.4 | 2.5 | 18.7 | 3.3 | 11.7 | 16.5 | 1.9 |
| | Malaysia | 5.3 | 8.7 | 21.5 | 3.5 | 15.7 | 1.5 | 12.0 | 9.2 | 10.9 |
| | Philippines | -3.0 | -0.9 | 9.0 | 3.7 | 10.1 | 1.2 | 18.0 | 9.5 | 6.7 |
| | Singapore | 1.0 | 27.8 | 14.8 | 4.4 | 14.3 | 1.3 | 12.5 | 61.0 | 6.5 |
| | Thailand | 3.6 | 1.1 | 5.2 | 3.5 | 13.9 | 1.4 | 16.4 | 11.2 | 18.7 |

*Source: Macrobond Indices in USD terms, BNP Paribas (WM), as of 30 September 2025*

# Fixed Income

OVERWEIGHT | NEUTRAL | UNDERWEIGHT

| OVERALL GLOBAL: NEUTRAL | | |
|---|---|---|
| Overweight | Neutral | Underweight |
| US Treasuries<br>German Bunds<br>UK Gilts<br>EUR and GBP IG<br>▲ EMD (LC) | US IG<br>High Yield<br>EMD (HC) | - |

| OVERALL ASIA (USD): NEUTRAL | | |
|---|---|---|
| Overweight | Neutral | Underweight |
| Japan<br>Singapore | South Korea<br>Philippines<br>Indonesia<br>Hong Kong<br>India, China<br>Australia | |

| | | Total Return (%) | | | Yield-to-Worst (%) |
|---|---|---|---|---|---|
| | | 1-month | YTD | 2024 | |
| Asia | Asia USD Bond | 0.9 | 7.0 | 4.5 | 4.7 |
| | Asia Local Currency Bond | -0.9 | 10.0 | 1.0 | 3.5 |
| | China | 0.8 | 6.5 | 5.7 | 4.6 |
| | Hong Kong | 0.9 | 7.0 | 4.7 | 4.5 |
| | India | 1.0 | 8.1 | 7.4 | 5.3 |
| | Indonesia | 1.0 | 7.5 | 0.8 | 5.0 |
| | Singapore | 0.6 | 5.6 | 3.0 | 4.2 |
| | South Korea | 0.5 | 5.8 | 4.4 | 4.3 |
| | Philippines | 1.5 | 8.5 | 1.4 | 4.9 |
| Other Regions | US 10-year Treasuries | 0.4 | 6.8 | 0.1 | 4.1 |
| | US Investment Grades (IG) | 1.1 | 6.1 | 1.3 | 4.4 |
| | US High Yield (HY) | 0.8 | 7.2 | 8.2 | 6.7 |
| | Emerging Market USD Bond | 1.0 | 7.1 | 5.2 | 4.9 |

*Source: Barclays indices, Bloomberg, BNP Paribas (WM) as of 30 September 2025*

| US Treasury 12-month Yield Targets (%) | 2Y | 5Y | 10Y | 30Y |
|---|---|---|---|---|
| | 3.60 | 3.75 | 4.25 | 4.50 |

- **Rate forecasts**: For the US, **we now expect the Federal Reserve to cut rates twice more this year (from one)** amid a slowdown in the labour market, **followed by two additional cuts in the first half of next year**, with a **terminal rate of 3.25%.** We think the **ECB has reached the end of its easing cycle** and that the **next move will be a hike in late 2026.**
- **Govies: Our 10-year yield targets are maintained for US and German at 4.25% and 2.75%.** The UK 10-year yield target has been raised to 4.40% from 4.20%, reflecting sticky inflation. **We stay Overweight on US, UK and German government bonds, but reduce US maturities to short-term, while maintaining intermediate maturities elsewhere. We continue to like TIPS.**
- **Corporate IG: We prefer EUR and UK IG (Overweight) over USD IG (Neutral)** 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.**
- **Emerging Market (EM) Bonds: We turn Overweight from Neutral on EM local debt.** Expected weaker USD is a tailwind. **We stay Neutral on EM hard currency amid high valuations and risk of higher US long-term yields.**

# Forex & Commodities

OVERWEIGHT NEUTRAL UNDERWEIGHT

## 12-MONTH FOREX VIEW

| Overweight | Neutral | Underweight |
|---|---|---|
| JPY EUR GBP AUD NZD CAD KRW TWD PHP SGD | CNY INR IDR MYR THB | USD |

## COMMODITIES

| Overweight | Neutral | Underweight |
|---|---|---|
| Gold Silver Base Metal | - | Oil |

- **EUR**: Policy uncertainty, whether stemming from tariffs, debt sustainability, or political interference with the Fed, is expected to gradually reduce the confidence in the dollar. Moreover, with the Fed continuing to cut rates, a narrowing rate differential should weigh on the currency over time. **Therefore, our 12m DXY target is now 92.6, and we change our 3m target of EUR to 1.18 and our 12m target to 1.24.**
- **AUD**: The RBA cut its policy rate by 25 bp to 3.6% in August. A decline in trade uncertainty, combined with an improved domestic outlook, has strengthened the currency. Moreover, a favourable interest rate differential and increasing demand for commodities are expected to further support the AUD. **Our 3-month target is still 0.66, and we adjust our 12-month target to 0.68 (value of one AUD).**
- **GOLD: Overweight** - We **remain long term Overweight on precious metals.** Near term, **some consolidation can be expected after gold and silver hit our target of USD 4000 and USD 50 respectively.** We think gold will remain supported by Fed rate cuts, de-dollarisation, central bank buying, and an ongoing safe-haven investment appetite in view of high geopolitical and financial uncertainties..
- **OIL: Underweight** – We maintain our Underweight view with a **target range of USD 60-70**, in view of OPEC+ production hikes, substantial non-OPEC supply growth, combined with limited demand growth.
- **BASE METALS: Overweight** – We maintain our long-term Overweight view and expect that growing demand for energy transition and infrastructure will outpace expected supply growth. **For copper (LME), we have a 12-month target range of USD 11,000-12,000.**

# Forex Forecasts

| | | Spot | 3-month | | 12-month | |
|---|---|---|---|---|---|---|
| | | As of 30 Sep 2025 | View | Target | View | Target |
| Developed | USD Index* | 97.78 | = | 97.0 | - | 92.6 |
| | Japan | 147.9 | + | 145 | + | 140 |
| | Eurozone | 1.173 | = | 1.18 | + | 1.24 |
| | UK | 1.345 | = | 1.36 | + | 1.43 |
| | Australia | 0.661 | = | 0.66 | + | 0.68 |
| | New Zealand | 0.579 | + | 0.60 | + | 0.60 |
| | Canada | 1.392 | = | 1.38 | + | 1.35 |
| Asia Ex-Japan | China | 7.128 | = | 7.15 | = | 7.10 |
| | South Korea* | 1,404 | = | 1,370 | + | 1,350 |
| | Taiwan* | 30.46 | + | 28.8 | + | 28.2 |
| | India | 88.79 | = | 88.0 | = | 88.0 |
| | Indonesia* | 16,665 | = | 16,450 | = | 16,300 |
| | Malaysia* | 4.207 | = | 4.20 | = | 4.16 |
| | Philippines* | 58.21 | + | 56.0 | + | 55.6 |
| | Singapore* | 1.290 | = | 1.26 | + | 1.25 |
| | Thailand* | 32.40 | = | 32.3 | = | 31.8 |

*Source: BNP Paribas (WM) as of 30 September 2025*
**BNP Paribas Global Markets forecast as of 30 September 2025*

Note: + Overweight / = Neutral / - Underweight

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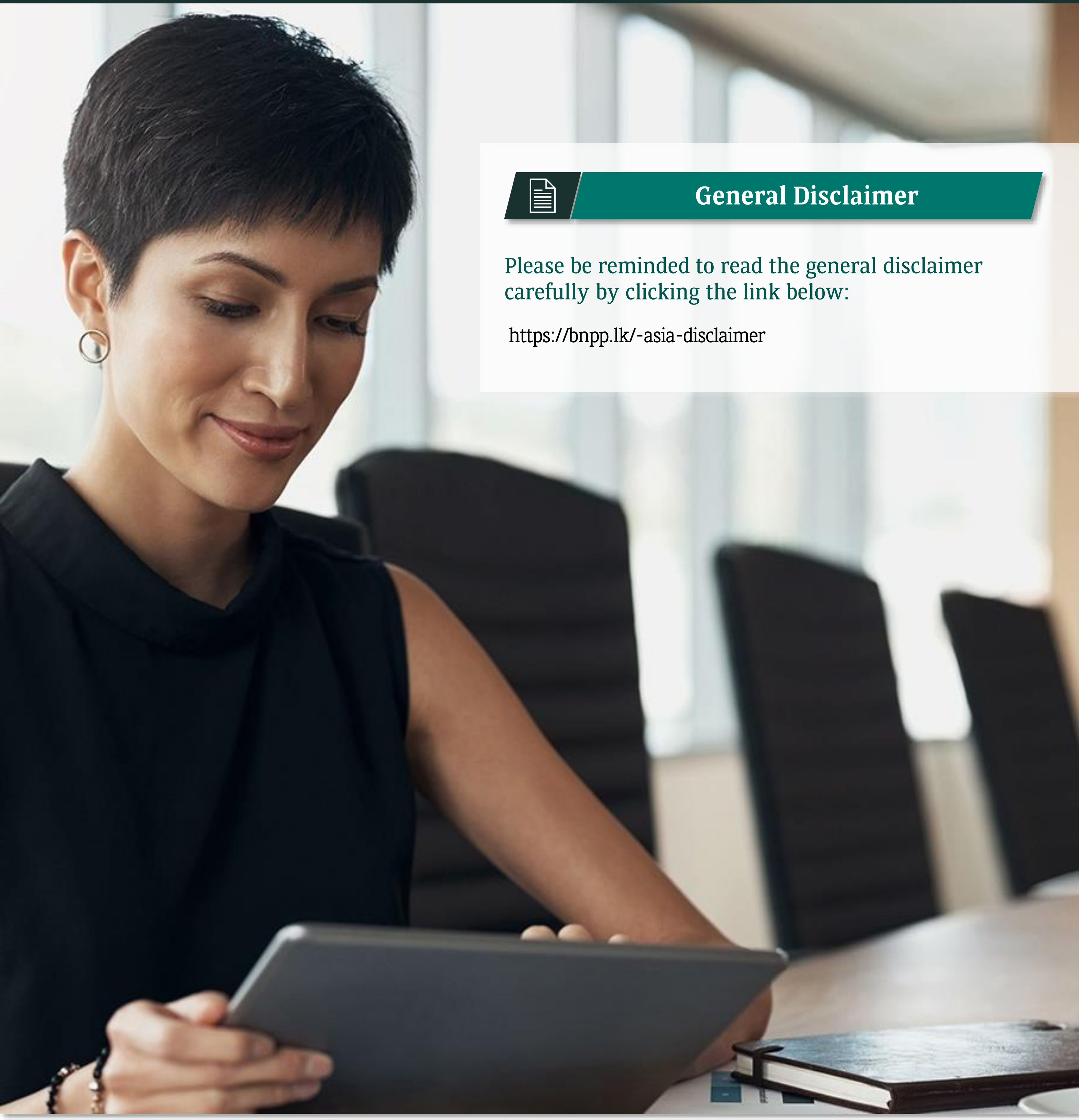

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