BNP PARIBAS WEALTH MANAGEMENT

The bank for a changing world

SUMMER EDITION (JUL-AUG) 2026

Investment Navigator

Asia Edition

Addressing Market Concerns in 2H 2026

As we enter the second half of 2026, markets are navigating a complex landscape shaped by geopolitical uncertainty, inflation concerns, and evolving monetary policy expectations. While renewed tensions around the Strait of Hormuz and rising energy costs have raised fears of both sustained inflation and tighter central bank policies, markets appear increasingly focused on underlying economic and corporate fundamentals rather than geopolitical headlines. At the same time, the technology and AI-driven rally has fuelled questions about market concentration and valuation risks, prompting investors to reassess portfolio positioning.

In this *Investment Navigator – Summer Edition (Jul-Aug) 2026*, we discuss these major market concerns and how investors should go about positioning their portfolios to balance resilience against potential volatility while capturing opportunities for long-term capital growth. Key questions include:

1. What are the key market concerns of 2H 2026?
2. What are the market implications of these concerns?
3. How should we position in second half of 2026 and beyond?

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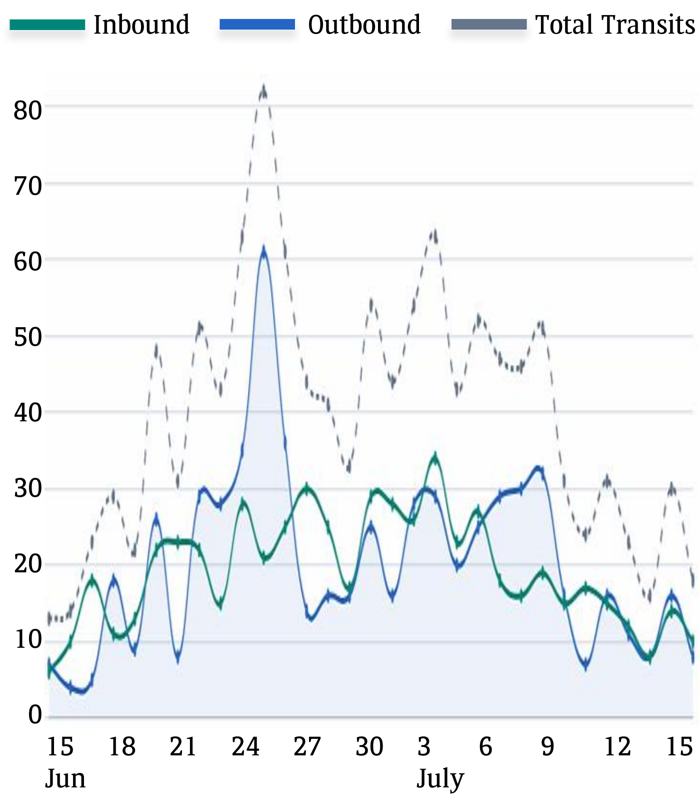
1. What are the key market concerns of 2H 2026?

Geopolitical worry – will the Hormuz situation improve?

The US-Iran situation remains fluid as of July 2026. While the start of the conflict drove up oil prices and maritime insurance premiums, a mid-June interim peace agreement briefly raised hopes of a diplomatic breakthrough and pushed Brent oil prices back into the USD 70/barrel region as ships started to transit in and out of the Strait of Hormuz *(see Figure 1)*. Nonetheless, the ceasefire soon collapsed in July after Iran resumed strikes on commercial tankers transiting the US-supervised route. The US subsequently reinstated its naval blockade, cementing the Strait of Hormuz as an active, volatile military flashpoint with no immediate resolution in sight.

Figure 1: **Strait of Hormuz in/out traffic still highly unpredictable**



Source: ShipFinder, as of 14 July 2026

Crucially, the Strait remains the world's most critical maritime chokepoint, handling roughly 20% of global oil and liquefied natural gas supplies. The first wave of inflation has already worked its way into the global economies. Despite this, the supply shortage has been quickly normalised by alternative oil sources, as well as energy replacements, relieving further oil inventory drawdown concerns *(see Figure 2)*. We maintain an Underweight stance on oil, with a 12-month target range of USD 60-70/barrel for Brent. Despite the near-term risk of further escalation, we expect the market to return to its oversupplied status and therefore revert to our pre-war price target. While the situation in the Middle East remains hard to predict, what is certain is that the worst seems to be behind us.

Figure 2: **Market would require significantly smaller inventory drawdowns going forward**

Oil market rebalancing

	May estimate (mb)	June estimate (mb)
Supply loss	**1,591**	**1,627**
Demand loss	646	801
Prior surplus	288	407
Inventory draws	657	419
OECD commercial	200	126
OECD SPR	380	273
Non-OECD	77	21

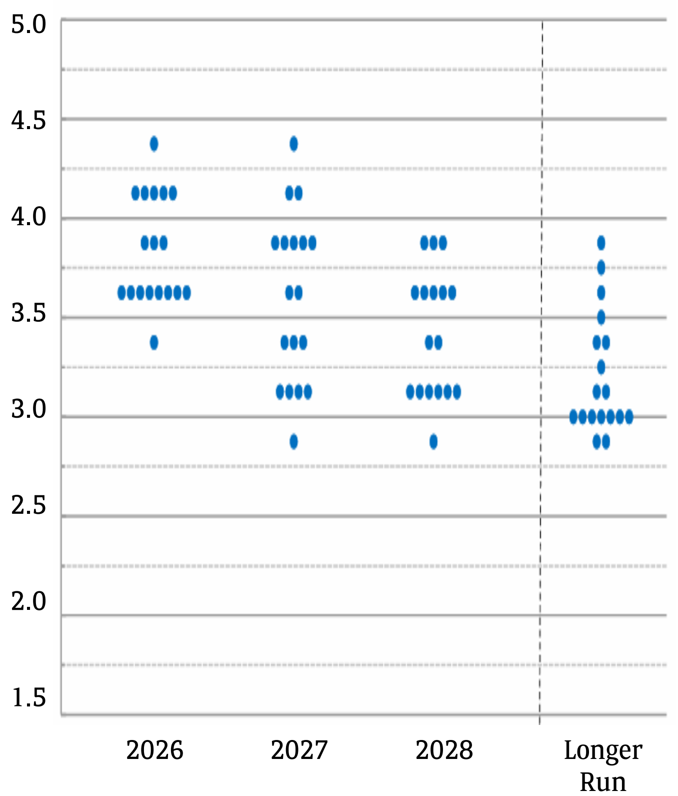
Source: JP Morgan Commodities Research, IEA, EIA, S&P Global Platts, as of 30 June 2026

Central bank hawkishness worry – will interest rates rise?

Most economies are now preparing for "second-round" effects on inflation resulting from higher oil prices. Costs of everyday goods and services are increasing, as seen from the trajectory of Consumer Price Index (CPI) figures across the world. This is why central banks are forced into a slightly more hawkish stance to prevent wage-price spirals and unanchor inflation expectations.

During his first Federal Open Market Committee (FOMC) meeting, newly appointed Fed Chair Kevin advocated a strict commitment to price stability, warning that letting inflation linger destroys long-term economic credibility. The more hawkish than expected Fed *(see Figure 3)* pushed the market to price in a rate hike as quickly as the upcoming September meeting, and two hikes (or 25bps) by the middle of 2027.

Figure 3: **Hawkish shift in the dots: Half of the policymakers now looking for a hike this year**

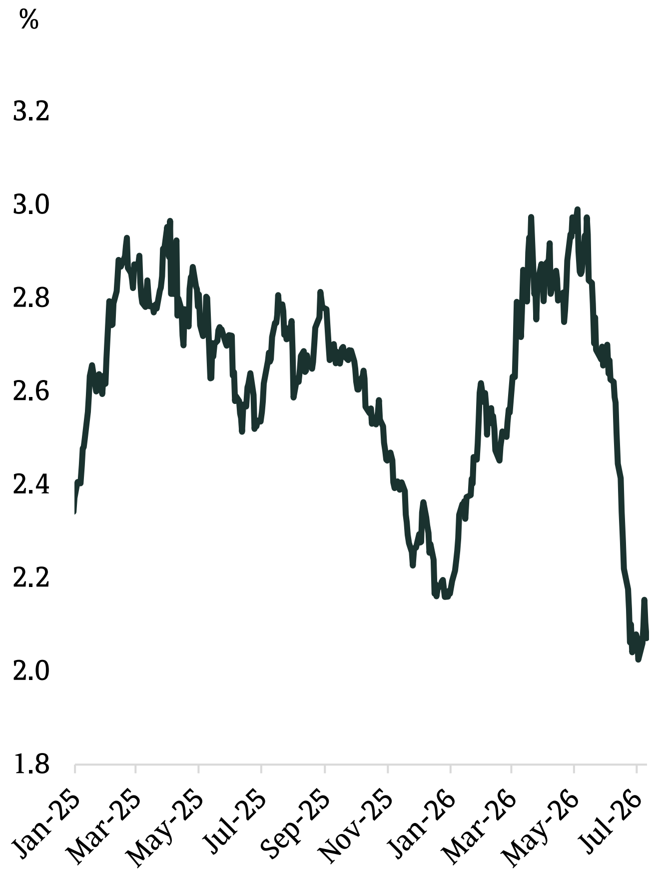


Source: Federal Reserve Board, as of 14 July 2026

While reducing inflation may require high interest rates, doing so risks cooling the economy too aggressively, potentially triggering layoffs and high unemployment. Currently, the labour market is also softer than widely perceived. June non-farm payroll numbers attest to that. More importantly, with the base case that the worst is behind us for the Hormuz situation, we continue to see the current inflation as transitory *(see Figure 4)*. Hence, while we think the current level of inflation warrants a hike (of 25bps) by December 2026, we do not see this as the start of a rate hike cycle, meaning no further hikes beyond this year.

Figure 4: **Inflation likely transitory: Medium term inflation risk looks contained**

US 2Y breakeven inflation



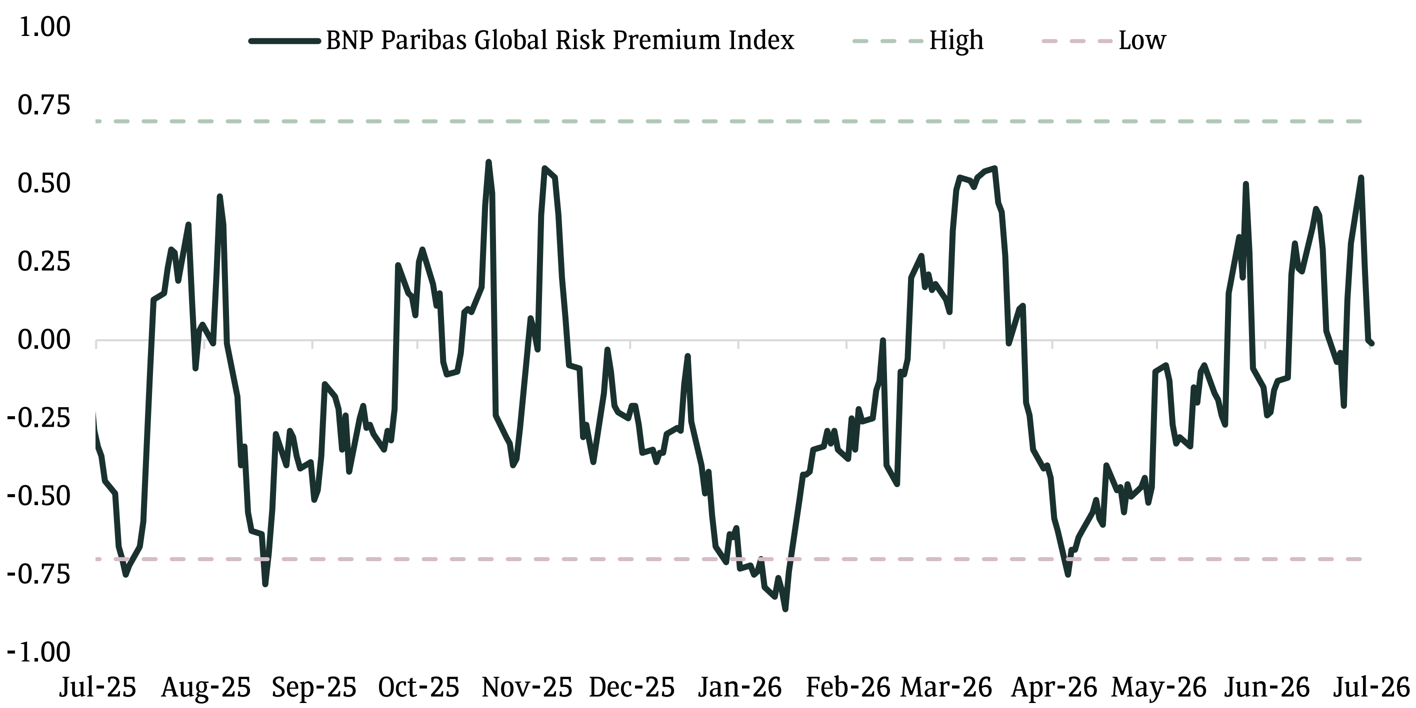
Source: Macrobond, BNP Paribas WM, as of 14 July 2026

2. What are the market implications of these concerns?

Clearly, the market is more focused on fundamentals rather than on geopolitical risk now. We have mentioned in the past that markets are typically forward-looking. Volatility across asset classes has not increased even as geopolitical tensions reignite. In fact, risk premium has decreased during this period *(see Figure 5)*, suggesting higher risk appetite amongst investors. Such phenomenon is evident from the recent AI IPOs as well as the semis/AI build-out boom. That being said, concentration risk is starting to look apparent. Two names alone account for approximately half of the Korea Composite Stock Price Index (KOSPI) index market weight. However, this suggests that a rotation within the asset class could happen soon. Wall Street is already giving a sneak peek, with the Dow Jones Index showing strength recently, while the technology-heavy Nasdaq has turned slightly more volatile.

Asset class rotation could also see money flow to the less-favoured precious metal space after a six-month long consolidation. Central banks globally continue to accumulate gold, while the higher inflation narrative has traditionally been positive for the yellow metal. Despite interest rate expectations picking up versus the start of the year, our base case of inflation being transitory (instead of runaway) means we could see an easing of dollar strength in the second half of 2026. These are fundamental reasons why we continue to favour gold as well as silver (being a beta play along with a supply/mining capex constrains) with a 12-month target price of USD 5,500/oz and USD 90/oz respectively.

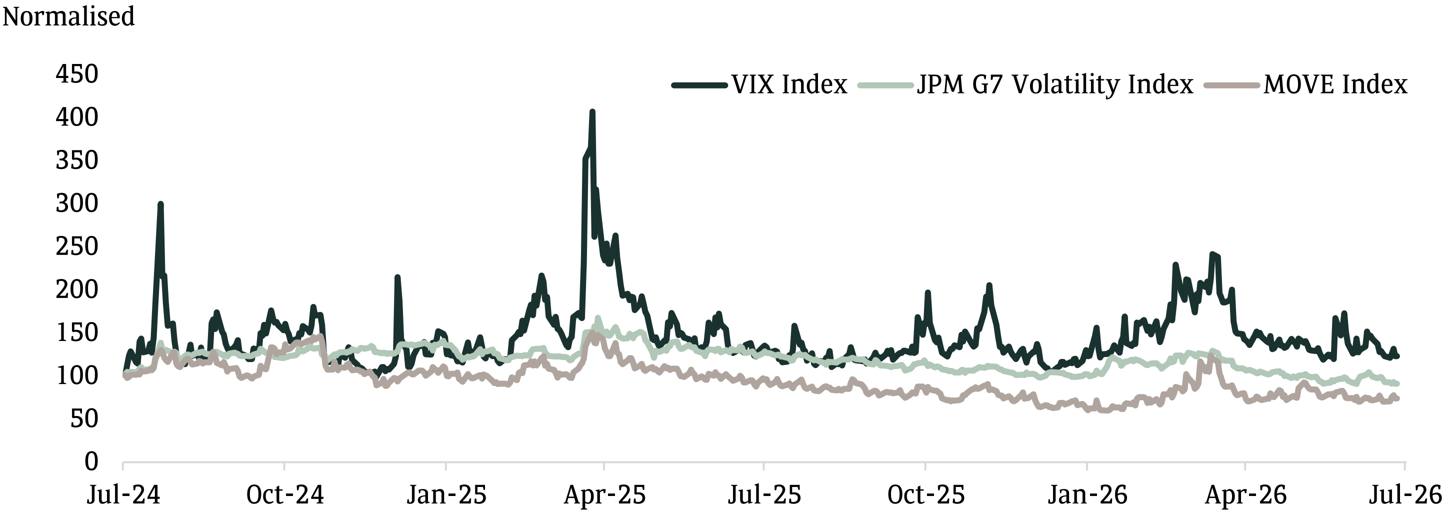
Figure 5: **BNP Paribas Global Risk Premium is low, suggesting a high risk appetite still present despite renewed tensions**



Source: Bloomberg, BNP Paribas WM, as of 14 July 2026

3. How should we position in second half of 2026 and beyond?

Figure 6: **Volatility could pick up near term given the renewed tensions**



Source: Bloomberg, BNP Paribas WM, as of 14 July 2026

While volatility has generally remained low across equities, fixed income and forex *(see Figure 6)*, there are sound rationales for it to pick up in the near term. Market continues to monitor the two main concerns stated earlier. A deteriorating situation in the Strait of Hormuz could reignite narratives of stagflation or even recession. Although it is not our base case, the unpredictable nature of the US administration suggests this should not be ruled out entirely. The AI build-out narrative also faces a severe reality check. Questions continue to be asked regarding the mismatch between massive capital expenditure (capex) and tangible revenue, circular financing, and more importantly, the stretched valuations. The upcoming mega AI IPOs (after SpaceX) also fuel more speculation of a massive AI bubble.

It is therefore vital for investors to remain well diversified to weather any potential volatility, whether short- or long-term. On equities, we continue to advocate for diversification away from US megacaps, with a preference for areas where we see more upside such as Japan and more recently China A-shares. We also have a value tilt (preferring healthcare and industrials), while also remaining neutral on Europe and Emerging Markets; however, we may revisit Asia again once the Hormuz outlook is more certain. In terms of fixed income, we are neutral on government bonds generally and prefer EUR- and GBP-denominated investment-grade corporate bonds. On currencies, we now favour non-USD currencies over the next 12 months as we believe the de-dollarisation trade will regain momentum for the reasons mentioned earlier. Alternatives may also start to play a bigger role going forward. Real assets, such as precious metals and real estate/infrastructure, remain good hedges against inflation. We also stay overweight on industrial metals, particularly copper and aluminum, on the back of increased structural demand due to the build-out of energy infrastructure, renewables and data centre capacity in the coming years.

Crucially, investors should stick to a disciplined approach in this current environment. Leveraging on CIO strategic asset allocation (SAA) and a tactical asset allocation (TAA) can help investors reduce downside volatility while maintaining market participation. Such approach also reduces cognitive bias, such as market timing, while still allowing investors to retain financial flexibility to capture tactical, high-conviction opportunities elsewhere.

Overview of our CIO Asset Allocation for July 2026

	Views		Constituents	We like	Comments
	Current	Prior			
EQUITIES	=	=	Markets	LATAM Japan	■ Global Equities remain **Neutral** ■ In mid-June, we **upgraded Japan to Overweight.** We also **upgraded EU, India and Southeast Asia to Neutral** ■ In July, we upgraded **China A shares** to **Overweight**
			Sectors	US: Healthcare, Industrials Europe: Healthcare, Industrials, Banks, Utilities	■ In mid-June, we **upgraded EU Banks to Overweight and US Financials to Neutral** ■ We also upgraded **EU Autos, Media, Travel & Leisure** to **Neutral** as we expect a consumption recovery in Europe ■ Key risk: Supply chain disruption causing higher inflation and more hawkish central banks
			Styles/ Themes	Megatrend Themes	■ Diversification, income, AI, infrastructure, commodities and Asian themes
BONDS	=	=	Govies	-	■ In July, we **downgraded core Eurozone govies and UK govies to Neutral,** favouring maturities 7-10 years ■ **Remain Neutral on US govies,** favouring maturities up to 5 years ■ 12-month **US 10Y yield** target increased from **4.25% to 4.50%**
	+	+	Segments	EUR and GBP Investment grade	■ Neutral on US investment grade bonds ■ In mid-June, we **upgraded High Yield bonds to Neutral** due to falling geopolitical risk ■ Remain **Neutral** on EM bonds as USD could remain strong in the near term
CASH	=	=			
COMMODITIES	+	+		Gold Silver Copper Aluminium	**Precious Metals:** ■ Silver – Overweight **(12m USD 90/oz)** ■ Gold – Overweight **(12m USD 5,500/oz)** **Oil – Underweight (Downgrade 12m target from USD 70-80 to USD 60-70 for Brent)** **Base Metals:** ■ Copper – Overweight **(12m USD 15,000/metric tonne)** ■ Aluminium – Overweight **(12m USD 3,800/metric tonne)**
FOREX			EURUSD		■ 12-month target at 1.20
			USDJPY		■ 12-month target at 155
ALTERNATIVE	+	+		Hedge funds (global macro, long-short equities, event driven)	■ Neutral on relative value

Note: + Overweight / = Neutral / - Underweight

GDP & CPI Forecasts

		GDP (YoY%)			CPI (YoY%)		
		2025	2026f	2027f	2025	2026f	2027f
Developed	US	2.1	2.3	2.4	2.7	3.7	2.8
	Japan	1.1	0.5	0.7	3.1	2.3	3.1
	Eurozone	1.5	0.6	1.6	2.1	3.0	3.3
	UK	1.4	1.0	1.2	3.4	3.4	3.3
North Asia	China	5.0	4.6	4.5	0.0	1.3	1.4
	Hong Kong*	3.5	2.4	2.4	1.4	2.1	1.8
	South Korea	1.0	3.1	2.2	2.1	2.6	2.3
	Taiwan	8.7	9.1	3.6	1.7	2.0	1.9
South Asia	India	7.7	6.6	6.8	2.1	5.1	4.2
	Indonesia*	5.1	5.0	5.1	1.9	3.0	2.6
	Malaysia*	5.2	4.7	4.3	1.4	1.9	2.0
	Philippines*	4.4	4.1	5.8	1.7	4.3	3.2
	Singapore*	5.0	3.5	2.7	0.9	2.3	1.9
	Thailand*	2.4	1.5	2.1	-0.1	0.9	1.0

Source: BNP Paribas Group Economic Research, BNP Paribas Global Markets forecasts as of 14 July 2026
Note: India's forecasts are for the fiscal year (April–March).
** IMF data and forecasts as of 14 July 2026*

GROWTH

- Despite the energy disruptions, US economic data continues to surprise to the upside. We expect US economic growth to remain resilient in 2H 2026.
- China's exports remain resilient given the continued AI supercycle and energy transition demand. However, domestic consumption has been slowing. The State Council recently approved a 5-year roadmap that targets RMB 60 trillion in retail sales by 2030 (vs. RMB 50.1 trillion in 2025).

INFLATION

- US core inflation remains sticky, while EU inflation shows some moderation, thanks to lower energy prices.
- However, inflation risks remain persistent as recent re-escalation of US-Iran tensions led to a rebound in energy prices.
- Also, the AI trend is currently inflationary before it becomes deflationary. For example, higher costs for DRAM and NAND memory chips have forced even a cash-rich industry leader like Apple to significantly raise product prices globally.

OVERALL GLOBAL: NEUTRAL

COUNTRY		
▲ Japan	US EM ▲ EU	-
SECTOR		
Healthcare Industrials	Comms. Materials Consum. Discre. Technology ▲ Financials Utilities Real Estate	Consumer Staples Energy

OVERALL ASIA: NEUTRAL

COUNTRY		
▲ China A-shares	China H-shares South Korea Taiwan ▲ India ▲ Southeast Asia	-
SECTOR		
Comms. Consum. Discre. Technology Healthcare	Materials Real Estate Financials Industrials Energy	Utilities Consumer Staples

- **Stay Neutral on Overall Equities:** While we have become more constructive on equities, uncertainty about the US-Iran ceasefire, which has caused a rebound in energy prices, is adding pressure. In addition, supply constraints, particularly in semiconductors and tech hardware driven by the AI boom, are fuelling price pressures that could potentially lead to higher rates and unsettle the markets. We **upgraded US Financials to Neutral** in mid-June.
- **We upgraded Europe to Neutral in mid-June**: Europe should be among the key beneficiaries of lower energy prices. However, structural headwinds remain. Therefore, we would prefer to focus on selected sectors and themes. We **upgraded EU Banks to Overweight, and Autos, Media, Travel & Leisure to Neutral.**
- **Upgrade China A shares to Overweight**: We expect A shares' outperformance over H shares to continue. The rally so far is not broad-based, with positioning and performance highly concentrated on AI build-out stocks. While China's export sector is very strong due to the robust AI demand, all eyes will be on the upcoming Politburo meeting in July to see if the top leadership will adopt a more proactive stance to support the economy, particularly domestic consumption.
- **We upgraded Japan to Overweight, India and Southeast Asia to Neutral in mid-June:** Japan remains a diversification option due to its corporate governance reforms and the high-quality AI infrastructure companies.

		1-month (%)	YTD (%)	2025 (%)	Dividend Yield (%)	12M Fwd PE (x)	Trailing PB (x)	12M Forward ROE (%)	EPS Growth Past 12M (%)	EPS Growth 12M Fwd (%)
Developed	US	-0.8	9.9	16.9	1.1	23.5	5.1	39.2	37.2	29.4
	Japan	-0.3	14.6	24.3	2.1	18.6	1.8	12.7	26.2	10.4
	Eurozone	-1.4	11.5	36.2	2.7	16.3	2.1	18.7	20.5	16.7
	UK	-1.3	5.8	35.6	3.1	12.6	2.1	20.5	35.4	23.5
North Asia	China	4.6	19.3	26.6	1.3	24.2	3.7	16.6	34.8	68.5
	Hong Kong	-8.0	-7.8	33.5	3.3	10.4	1.2	14.8	14.4	27.3
	South Korea	-5.4	74.8	80.9	0.7	9.3	2.7	23.3	108.6	336.7
	Taiwan	3.3	61.5	36.8	1.5	24.8	4.9	31.8	47.8	55.8
South Asia	India	1.1	-8.0	2.0	1.3	19.4	3.4	19.6	12.8	22.3
	Indonesia	-7.6	-46.1	8.8	3.5	10.3	1.9	16.5	5.2	14.2
	Malaysia	-4.6	1.5	15.8	3.5	15.5	1.5	12.4	17.2	9.2
	Philippines	2.0	-6.3	-2.1	3.8	9.9	1.2	20.6	15.4	5.1
	Singapore	-0.4	9.6	37.2	4.1	16.1	1.5	12.7	7.1	0.2
	Thailand	-1.4	26.0	2.9	3.1	17.7	1.7	19.6	51.8	11.8

Source: Macrobond Indices in USD terms, BNP Paribas (WM), as of 30 June 2026

OVERWEIGHT | NEUTRAL | UNDERWEIGHT

OVERALL GLOBAL: NEUTRAL		
Overweight	Neutral	Underweight
EUR and GBP IG	US Treasuries US IG EMD (HC) EMD (LC) ▼ UK Gilts ▼ Eurozone Govies ▲ High Yield	-

OVERALL ASIA (USD): NEUTRAL		
Overweight	Neutral	Underweight
Japan Singapore Australia	South Korea Hong Kong India China	Philippines Indonesia

		Total Return (%)			Yield-to-Worst (%)
		1-month	YTD	2024	
Asia	Asia USD Bond	-0.5	0.4	8.1	5.2
	Asia Local Currency Bond	-0.1	-7.3	9.7	4.3
	China	-0.3	1.0	7.3	5.0
	Hong Kong	-0.3	0.7	8.4	4.9
	India	-0.4	1.4	9.6	5.8
	Indonesia	-1.0	-1.4	8.9	5.6
	Singapore	-0.4	0.3	6.6	4.8
	South Korea	-0.1	0.9	7.1	4.7
	Philippines	-1.0	-0.8	9.1	5.4
Other Regions	US 10-year Treasuries	-0.7	-0.9	7.8	4.6
	US Investment Grades (IG)	-0.7	0.0	7.3	4.9
	US High Yield (HY)	0.0	2.0	8.6	7.2
	Emerging Market USD Bond	-0.4	0.7	8.3	5.4

Source: Barclays indices, Bloomberg, BNP Paribas (WM) as of 14 July 2026

US Treasury 12-month Yield Targets (%)	2Y	5Y	10Y	30Y
	▲ 4.00	▲ 4.20	▲ 4.50	▲ 4.95

- **Rate Forecasts:** June Federal Open Market Committee (FOMC), chaired by the newly appointed Fed Chair, Kevin Warsh, was marked by a more hawkish tone. **We now forecast one rate hike by the Fed in December 2026.** The European Central Bank (ECB) raised its policy rate in June, and we do not anticipate any further hikes in 2026. For the Bank of England (BOE), we have postponed the forecast rate increase from July to September 2026.
- **Govies:** We **downgrade core Eurozone Govies and UK Govies from Overweight to Neutral** as yields fell back on more moderate inflation expectations in line with lower oil prices. We favour maturities of 7-10 years. We maintain Neutral on US Govies with a preference for 2-5 years maturities and **we have increased our 12M target on the US 10-year yield to 4.50%.**
- **Corporate Investment Grade (IG) Bonds: We still prefer EUR and GBP IG corporate bonds (Overweight view) to USD IG bonds (Neutral view)** given supply dynamics and the level of yields/spreads. We focus on quality.
- **Emerging Market (EM) Bonds: We are Neutral on both local currency and hard currency EM bonds.** Some EM central banks are hiking rates and the USD could remain strong in the near term. Valuations are also not favourable.
- **High Yield (HY):** We **upgraded corporate high yield to Neutral in mid-June** due to falling geopolitical risks. However, spreads are still close to historic lows and expected returns do not reflect the underlying risk.

12-MONTH FOREX VIEW

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

COMMODITIES

Overweight	Neutral	Underweight
Gold Silver Base Metals	-	Oil

- **JPY:** The Bank of Japan (BoJ) raised its policy rate to 1.00% in June. Despite the BoJ offering no clear timeline for further moves, we expect another hike in October, followed by gradual increases roughly every four to five months, which should support yen appreciation. **Our 3M USD/JPY target is 158 and our 12M target is 155 (value of one USD).**
- **USD:** The dollar's recent strength reflects its safe haven status, continued inflow of capital into the US equity markets, and a more hawkish Fed that may see rate hikes later this year. However, a gradual capital shift away from the USD is expected in the medium term if geopolitical tensions ease. Additionally, underpriced risks such as fiscal deficits and rising debt attributed to defence spending and pre-election stimulus could weigh on the dollar. **Accordingly, our 3M DXY and 12M DXY targets are 100.66 and 96.23, respectively**.
- **PRECIOUS METALS: We maintain our 12M price target of USD 5,500/ounce for Gold and USD 90/ounce for Silver** and confirm our **Overweight** view on precious metals. Despite short-term headwinds of higher rates and a stronger US dollar, we expect central bank demand to pick up in 2H 2026.
- **OIL: We maintain our Underweight stance with a lower price target range from USD 70-80 to USD 60-70 per bbl for Brent.** Crude Oil prices corrected around 18% in June, (after correcting 20% in May) due to the interim peace deal negotiated between the US and Iran. We expect the market to return to its surplus status and therefore return to our **pre-war price target.**
- **BASE METALS**: **We maintain our Overweight view on industrial metals and maintain our 12M price target of USD 15,000/MT for LME copper and USD 3,800/MT for LME Aluminium**. Despite short-term headwinds of higher rates, we see **structurally tight markets** for the coming 12 months, particularly for **aluminium**.

Forex Forecasts

		Spot	3-month		12-month	
		As of 14 Jul 2026	View	Target	View	Target
Developed	USD Index	100.92	=	100.7	-	96.2
	Japan	162.3	+	158	+	155
	Eurozone	1.142	=	1.14	+	1.20
	UK	1.339	=	1.31	+	1.38
	Australia	0.698	+	0.73	+	0.71
	New Zealand	0.582	+	0.60	+	0.60
	Canada	1.406	+	1.38	+	1.35
Asia Ex-Japan	China	6.774	=	6.80	=	6.80
	South Korea*	1,490	=	1,520	=	1,500
	Taiwan*	32.19	=	32.0	=	31.9
	India	96.20	=	95.0	=	95.0
	Indonesia*	18,092	=	18,200	=	18,450
	Malaysia*	4.078	=	4.04	+	3.95
	Philippines*	61.58	=	62.0	=	61.5
	Singapore*	1.291	=	1.29	=	1.27
	Thailand*	33.52	=	33.5	=	33.0

Source: BNP Paribas (WM) as of 14 July 2026
**BNP Paribas Global Markets forecast as of 14 July 2026*

Note: + Overweight / = Neutral / - Underweight

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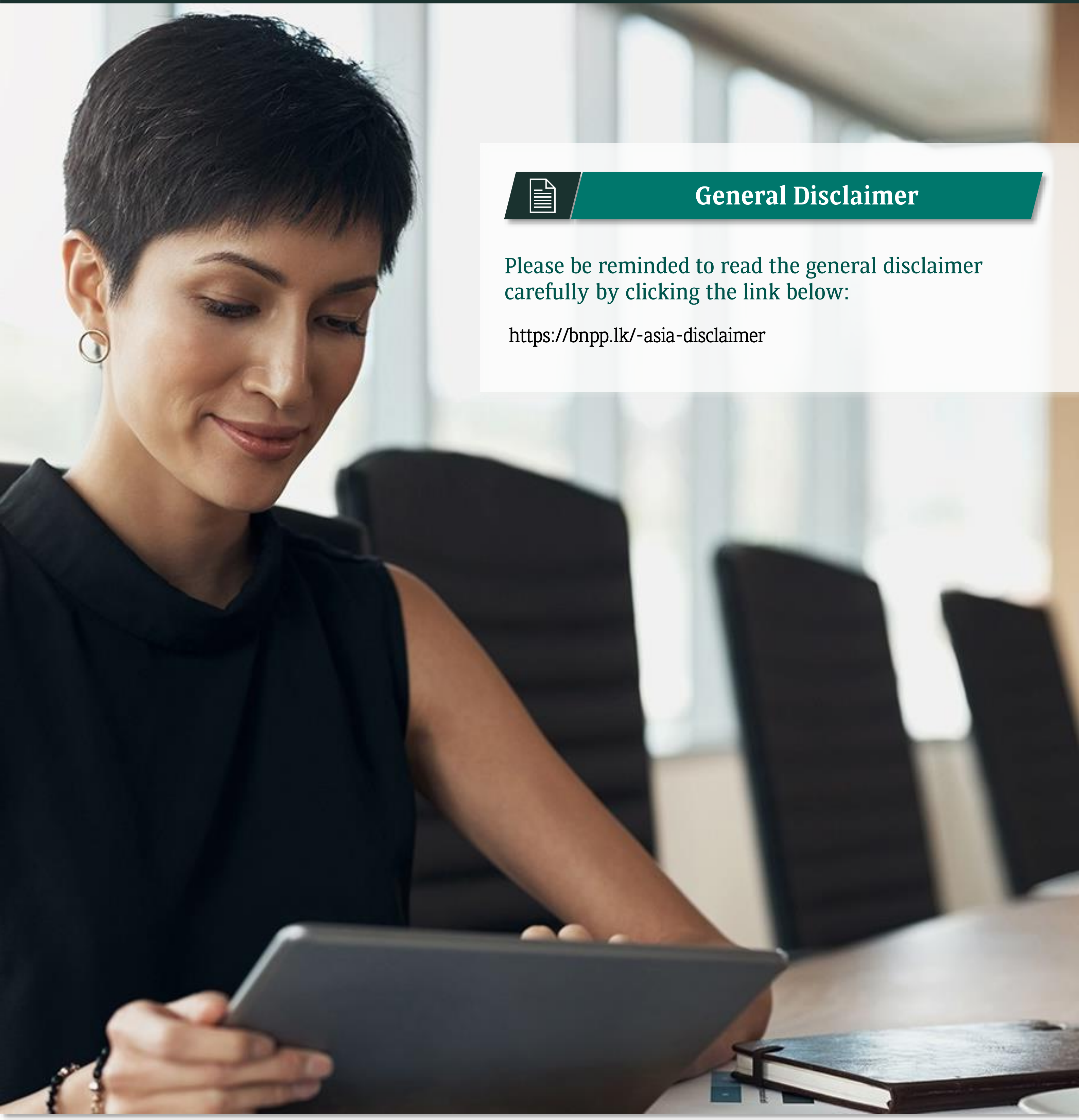

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WEALTH MANAGEMENT

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