BNP PARIBAS
WEALTH MANAGEMENT

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Investment Navigator

Asia Edition

Red Sweep! Your Top Questions Answered......

Former President Donald Trump is the new US President-Elect, and the Republicans have completed a Red Sweep controlling both the Senate and the House of Representatives.

Trump's win might lead to new US import tariff increases. An extension of the 2017 tax cuts and further fiscal stimulus are expected in a Red wave scenario. The medium-term impact is likely to be negative on the US economy and lead to higher inflation, and potentially also weighing on the Eurozone. It is unlikely the Federal Open Market Committee will react to the election result, but we could see an increase in terminal rate, given the upside inflation risk. Equity markets and the dollar have reacted positively. Yields were up in the US and modestly lower in the eurozone.

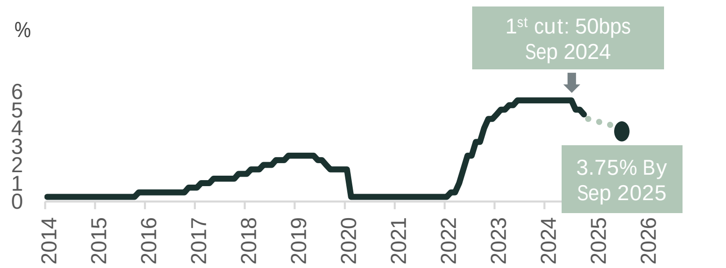
How does it impact central bank policy and rate cuts?

The outcome of the US election may result in the Fed pausing the rate cutting cycle earlier than we had initially expected, as inflation may increase in late 2025. For now, the Fed will not change its plan as it bases its policy on incoming data. So, the plan to cut rates in December and at a quarterly cadence in most of 2025 is still valid in our view.

What are the possible economic impacts?

Trump's victory will very probably lead to a new round of US import tariff increases. The potential extension of individual tax cut and further corporate tax cut are expected in a Red wave scenario. In the short term, these stimulus measures would boost US economic growth and corporate earnings. However, we think in the medium-term, they are likely to lead to higher inflation. Tariffs are likely to have bigger effects globally than the potential changes to fiscal and immigration policy.

BNP PARIBAS FED FUNDS RATE PROJECTED PATH



Source: Bloomberg, BNP Paribas (WM), as of 19 November 2024
Past performance is not indicative of current or future performance.

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We think that the Fed will pause its rate-cutting cycle in September 2025, and reach a terminal rate of 3.75% (vs 3.25% in our previous scenario).

In the eurozone, disinflation is well underway, and the ECB is facing a risk of losing economic momentum. We therefore see a higher probability of a relatively deeper rate cutting cycle.

We now forecast an ECB terminal rate at 2% that should be reached in September 2025, as opposed to 2.25% in the previous scenario.

Bond Markets

As for yield targets, we revised our US treasury yield targets higher given the inflation risk in the US and the risk of increased fiscal spending that would suggest more Treasury supply.

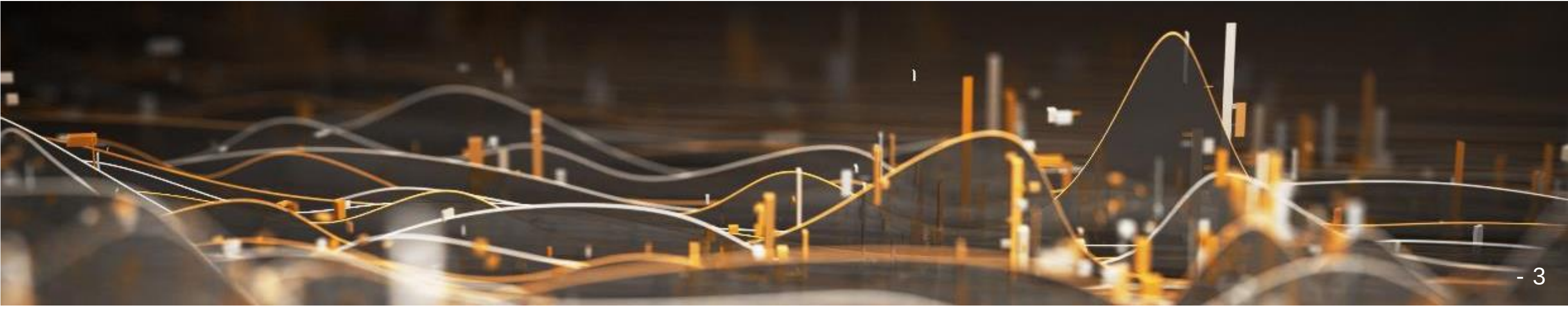
We see the US 10-year yield at 4.25% in 12 months (previously 4%), and stay Neutral on government bonds.

Regarding corporate bonds, the Red sweep is the perfect scenario for Credit as it implies easier regulation and lower corporate tax. Corporate credit may test new cycle lows in the US. In Europe, the Red sweep is not Credit-positive given the potential tariffs and geopolitical uncertainty. We do believe, however, that this is at least partially priced in, and we do not expect Trump to impose as many tariffs as threatened. The technical backdrop remains very supportive.

We stay Positive on both EUR and USD Investment Grade corporate bonds, and Neutral on High Yield corporate bonds (valuations are very tight).

In Emerging Markets, fundamentals are sound, and the carry is elevated. However, the expected expansionary US fiscal policy will generate higher US bond yields, and the central banks' policy divergence augurs well for a stronger dollar. These two factors are not positive for EM bonds. In addition, potential tariffs and trade tensions will harm EM exporters.

Hence, we turn Neutral from Positive on EM bonds.



How do the central bank policies impact FX?

The main driver for the coming month will be the interest rate differential. As mentioned above, the policy rate of the **US central bank is now expected to stabilise at a higher level than our previous outlook. In addition, the ECB will probably cut rates by more than expected.** This would imply a much higher rate differential in favour of the USD relative to the euro.

Hence, we revised down our EUR/USD target to 1.06 for the 3 month and 1.02 for the 12-month horizon.

We have also revised our outlook for the **Japanese Yen to 150 (value of one USD) for both our 3- and 12-month targets.** The Bank of Japan is still expected to increase its policy rate. Nevertheless, given our previous mention that the Fed terminal rate is now seen to be higher than our previous outlook,

The Yen should remain broadly stable at around current levels.

We have also revised USD/CNY targets to 7.20 and 7.30 (value of one USD) for the 3- and 12-month horizons.

Likewise, various other currencies against the USD pairing has also been revised given the stronger dollar view.

How does the US elections outcome impact our view on equites globally?

US Equities

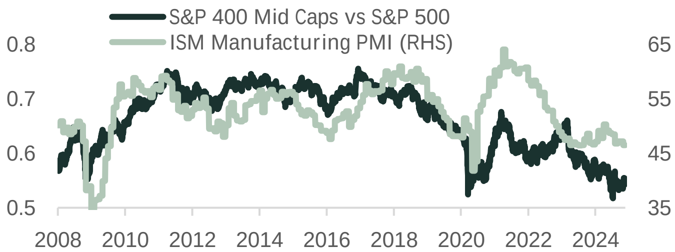
Following the Red sweep, we should see the implementation of many (or all) proposed fiscal stimulus packages, including tax cuts and deregulation. It is worth keeping in mind that Small & Mid-Caps have a higher gearing to low corporate tax rates, because, among other factors, their effective tax rate is currently above levels for large caps.

If we combine this with a policy mainly focused on the domestic economy, we see the stars aligning for a more sustainable move from still rather expensive US mega caps to more reasonably priced areas of the market.

We thus stick to our relative preference of Small & Mid-Caps over the S&P500 equally weighted and over the S&P500 market weighted.

Since the aforementioned policy should also help drive manufacturing PMIs higher, we continue to like cyclical stocks with domestic exposure. Financials are our key sector conviction in the US as the sector should benefit from a "higher for longer" rates environment and ongoing deregulation.

MID CAPS SHOULD BENEFIT MORE FROM A REBOUND IN MANUFACTURING PMI



Source: Bloomberg, BNP Paribas (WM), as of 19 November 2024
Past performance is not indicative of current or future performance.

European Equities

Given the recent development, we have downgraded European equities to Neutral.

Prospects for Europe have worsened materially recently. The threat of a reacceleration of global trade tensions is jeopardising our view of a growth recovery.

Germany, a key country in the eurozone, will also be occupied with domestic issues in the coming months with the breakdown of the German leading coalition. Hence, a coordinated European response to any US demands may seem more complicated going forward.

Europe would also likely suffer from escalating trade tensions between the US and China.

While our base-case scenario neither assumes a global 10% tariff rate nor a 60% tariff on China, the uncertainty stemming from the threat could hinder investments.

Earnings reported by European companies have been mixed so far.

While free float market cap-weighted earnings results have come in 3.7% ahead of consensus, earnings revisions breadth remains negative. The impact is particularly severe for China-related sectors such as automakers, luxury goods, and commodity producers. This is important as it puts the expected earnings growth for 2025 at risk, particularly as a 0.1 ppt sales-weighted GDP reduction could cause STOXX 600 earnings to fall by 1ppt.

Within Europe, we favour the UK and see value in the periphery countries as well as the Nordics, especially Sweden.

China Equities

We remain cautiously optimistic in the medium term due to three reasons.

i) there is still room for more fiscal stimulus.

It is likely that Beijing will prefer to introduce further stimulus in the 2025 budget after Trump's inauguration;

ii) the 60% tariff on China is not our base-case scenario.

Like Trade War 1.0, it could be Trump's trade tactics for a trade deal (it may take less time to reach a trade deal in Trade War 2.0), and

iii) the China market could still be volatile in the short term, but we expect domestic A-shares to be more resilient than offshore China equities because of the ongoing capital market reform.

Furthermore, the swap facility from the stimulus package announced in September has been working well to improve market liquidity and to encourage inflows into the A-share markets.

SEASONAL TAILWINDS MEANS THE BEST TIME TO ACT IS NOW

	S&P 500 6M % change	% up
Nov - Apr	7.1%	77.0%
Oct - Mar	6.7%	70.3%
Dec - May	5.4%	71.6%
Jul - Dec	4.8%	71.6%
Sep - Feb	4.7%	68.9%
Aug- Jan	4.5%	70.3%
Mar - Aug	4.4%	72.0%
Feb - Jul	4.4%	72.0%
Jan - Jun	4.3%	68.9%
Jun - Nov	3.4%	67.6%
Apr - Sep	2.7%	65.3%
May - Oct	1.7%	64.9%

Source: Bloomberg, BNP Paribas (WM), as of 19 November 2024
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What does this mean for Commodities?

President-elect Trump has promised to support US oil and gas exploration (including shale oil & gas), by rolling back regulation and speeding up permit-granting procedures. This will further increase the country's already record-high oil and gas production.

While this offers positive volume growth prospects for US energy companies, it could entail additional pressure on oil prices in an already challenging supply-demand situation. Remember that global demand growth remains very slow, partly due to the energy transition.

This prospect of further growing US supply comes on top of OPEC's intention to gradually increase its production again.

In recent years, OPEC+ had cut its production by 5.8 million barrels per day (or +/- 10% of its capacity) to support prices. But this was compensated by growing supply by non-OPEC countries, mainly in the Americas. OPEC+ is not willing to extend its production cuts forever, as they want to recoup market share.

The start of its planned tapering process has already been extended from October 2024 to January 2025 in view of recent pressure on oil prices. At their next meeting on 1 December, OPEC+ may still decide on further extensions or the pace of tapering production cuts.

A full extension until the end of 2025 is rather unlikely. Very gradual tapering, coupled with more discipline from some members, could be a feasible outcome for the oil market.

Ahead of this crucial OPEC+ meeting, we remain Neutral on the Brent price with a target range of USD 70-80. But the downside risks are increasing, certainly in the event that OPEC+ ramps up its production too fast or does not reach a convincing agreement (or lack of discipline). Although the Chinese stimulus package could support Chinese oil consumption next year, we expect limited global demand growth over the next few years due to the energy transition.

CONCLUSION

The US election outcome is a game changer

The effect on US growth should be positive in the short term but mixed to negative in 2026. More stimulus and tariffs should push up US inflation next year. Lower uncertainty and a possible end to the conflicts in Ukraine and the Middle East could have a positive impact on world growth (via lower energy prices and improved sentiment) over the coming months. In the medium term, we can expect a negative effect due to tariffs.

Central banks and bond markets

The Fed should pause its rate-cutting cycle in September 2025 with a policy rate of 3.75%. For the ECB, we forecast a terminal rate of 2% to be reached in September 2025 (2.25% in the previous scenario). We see the US 10-year yield at 4.25% in 12 months (previously 4%), and our 12-month target on the Germany bund yield remains unchanged at 2.25%. We turn Neutral from Positive on EM bonds.

Currencies

The higher rate differential suggests renewed USD strength. We have revised our USD targets in general and the EUR/USD target to 1.06 for the 3-month and 1.02 for the 12-month horizon.

Equities

We have upgraded US equities to Overweight and downgrade European equities to Neutral. Within Europe we still favour the UK and see value in the periphery countries as well as in the Nordics, especially Sweden. We continue to like cyclical stocks, with domestic exposure. Financials are our key sector conviction in the US.

Commodities

We remain Neutral on the Brent price with a target range of USD 70-80. But the downside risks are increasing.

Overview of our CIO Asset Allocation for Nov & Dec 2024

	Views Current	Views Prior	Constituents	We like	Comments
EQUITIES	+	+	Markets	US, UK, Japan, Brazil, China, South Korea, Singapore & Indonesia	■ We **upgrade US to positive & downgrade Eurozone to neutral** ■ We **like US small-mid caps**
			Sectors	Financials, Materials, Industrials	■ We **downgrade global energy to negative** ■ **US:** We **upgrade financials & utilities to positive & consumer discretionary to neutral** ■ **EU:** We **upgrade travel & leisure to neutral & downgrade tech to neutral**
			Styles/ Themes	Megatrend Themes	■ Circular economy, electrification, security, deep value & income themes.
BONDS	=	=	Govies		■ We remain **neutral on US Treasuries** ■ Our 12-month target for the **US 10-year Treasury yield is revised up to 4.25%**, and **2-year yield target to 4.0%.**
	+	+	Segments	Investment grade	■ We remain **positive on US** (short maturity) **and Euro** (up to 10-year maturity) **investment grade corporate bonds.** ■ We **downgrade EM bonds (USD+local currency) to neutral**
CASH	-	-			
COMMO-DITIES	+	+		Gold Base metals	■ **Gold – Positive with 12-month target of $3000/oz** ■ **Oil – Neutral with Brent's** target **range to $70-80.** ■ **Base metals – Positive esp copper**
FOREX			USDJPY EURUSD		■ **3-month & 12-month targets** both at **150** ■ **3-month target at 1.06 & 12-month target at 1.02**
ALTER-NATIVE	+	+		Hedge funds (event driven, long-short equities, relative value)	■ **Neutral on global macro**

Note: + Positve / = Neutral / - Negative

GDP & CPI Forecasts

		GDP (YoY%)			CPI (YoY%)		
		2023	2024f	2025f	2023	2024f	2025f
Developed	US	2.5	2.7	2.1	4.1	2.9	2.2
	Japan	1.7	-0.2	0.7	3.2	2.7	2.4
	Eurozone	0.5	0.8	1.4	5.4	2.3	1.9
	UK	0.1	1.0	1.5	7.4	2.5	2.3
North Asia	China	5.2	4.9	4.5	0.2	0.4	1.3
	Hong Kong*	3.2	3.2	3.0	2.1	1.7	2.3
	South Korea	1.4	2.3	1.8	3.6	2.4	2.2
	Taiwan	1.3	3.9	2.1	2.4	2.2	1.8
South Asia	India	8.2	6.9	6.7	5.4	4.7	4.3
	Indonesia	5.1	5.1	5.1	3.7	2.7	2.7
	Malaysia	3.6	5.1	4.5	2.5	2.0	2.8
	Philippines*	5.6	5.8	6.1	6.0	3.3	3.0
	Singapore	1.1	2.6	2.4	4.2	2.8	1.8
	Thailand	1.9	2.8	3.0	1.3	0.7	1.7

Source: BNP Paribas Group Economic Research, BNP Paribas Global Markets forecasts as of 18 November 2024
* IMF data and forecasts as of 18 November 2024

GROWTH

- The US election outcome is a game changer. The effects on US growth should be positive over the next few quarters but mixed to negative in 2026.
- We are likely to downgrade European growth but only moderately. The risk of a recession in the Eurozone remain low as the underlying trend is still supportive especially for the consumer.
- Lower uncertainty and a possible end to the conflicts in Ukraine and the Middle East could have a positive impact on world growth (via lower energy prices and improved sentiment) over the coming months.

INFLATION

- The key assumption is that more US stimulus and tariffs should push up inflation as the economy remains close to full employment. We expect tariff increases from the US President, but we do assume that they will be lower than expected as tariff threats will also be used as a negotiation technique.
- We see little impact on Eurozone's inflation forecast, potentially even lower in the short term that allows more aggressive rate cuts from the ECB.

Equities

POSITIVE NEUTRAL NEGATIVE

OVERALL GLOBAL: POSITIVE

	Positive	Neutral	Negative
COUNTRY	▲ US UK Japan Emerging Mkt	▼ Eurozone	-
SECTOR	▲ Financials Healthcare Materials Industrials ▲ Utilities	Comms. Real Estate Technology ▲ Consum. Discre.	Consumer Staples ▼ Energy

OVERALL ASIA: POSITIVE

	Positive	Neutral	Negative
COUNTRY	China Singapore South Korea Indonesia	Taiwan India, Thailand Malaysia Philippines	-
SECTOR	Comms. Consu. Discre. Consumer Staples Technology	Energy Materials Real Estate Financials Healthcare Utilities	Industrials

- We **upgrade US to positive** and stick to our **relative preference for Small & Mid-Caps and the S&P500 equally weighted** over the S&P500 market weighted. We **like US cyclical stocks** with domestic exposure. **US financials are our key sector conviction** as the sector should benefit from deregulation. We **favour energy infrastructure** in the utilities sector. We are **selective in US consumer discretionary** due to valuations.

- We **downgrade Eurozone equities to neutral.** Prospects for Europe have worsened materially. Due to its open and export-oriented business structure, Europe would suffer from US tariffs as well as escalating trade tensions between the US and China. While our base-case scenario neither assumes a global 10% tariff rate nor a 60% tariff on China, the mere uncertainty stemming from the threat could create severe growth scares as uncertainty usually hinders investments.

		30th Sep - 18th Nov (%)	YTD (%)	2023 (%)	Forward PE (x)	Trailing PB (x)	Dividend Yield (%) 2024f	EPS Growth (%) 2024f	EPS Growth (%) 2025f	ROE (%) 2024f
Developed	US	2.7	23.7	25.0	22.3	5.3	1.5	9.8	14.3	17.5
	Japan	2.1	14.4	25.9	14.1	1.5	2.1	17.9	6.1	9.3
	Eurozone	-4.0	4.9	16.0	13.1	1.8	3.2	-0.1	8.3	12.6
	UK	-1.5	4.5	3.3	11.6	1.9	3.7	-0.7	6.5	13.6
	Asia Ex-Japan	-7.1	10.3	3.6	13.1	1.8	2.5	28.1	13.8	11.6
North Asia	China	-7.8	15.5	-12.8	10.5	1.4	2.9	16.8	9.6	11.4
	China A-shares	-1.7	15.1	-11.4	12.9	1.7	3.1	10.6	9.5	10.8
	Hong Kong	-9.7	-4.1	-17.8	12.8	1.0	3.9	12.4	7.8	7.2
	South Korea	-5.1	-9.8	23.9	8.3	1.0	2.4	106.2	24.0	9.6
	Taiwan	3.9	36.9	26.7	17.0	3.4	2.2	39.2	17.1	16.3
South Asia	India	-10.3	12.6	20.3	22.9	4.4	1.2	8.7	18.4	14.7
	Indonesia	-7.4	-9.0	2.2	12.6	2.4	4.6	1.3	6.4	16.4
	Malaysia	-2.0	9.8	-3.2	13.7	1.5	3.8	14.3	6.2	9.3
	Philippines	-7.7	5.8	1.1	11.9	2.0	1.9	17.0	9.9	13.8
	Singapore	-1.1	14.1	-3.9	12.9	1.6	5.0	10.4	4.4	10.6
	Thailand	0.4	3.8	-13.8	17.1	1.9	2.9	8.8	14.8	9.3

Source: MSCI indices in local currency terms, Bloomberg, Datastream, BNP Paribas (WM), as of 18 November 2024

Fixed Income

POSITIVE NEUTRAL NEGATIVE

OVERALL GLOBAL: NEUTRAL		
Positive	Neutral	Negative
Investment Grade	UST High Yield ▼ EMD (LC) ▼ EMD (HC)	-

OVERALL ASIA (USD): NEUTRAL		
Positive	Neutral	Negative
Japan Singapore	South Korea India Philippines Indonesia Hong Kong China	

		Total Return (%) 30th Sep to 18th Nov	YTD	2023	Yield-to-Worst (%)
Asia	Asia USD Bond	-0.3	4.6	7.3	5.3
	Asia Local Currency Bond	-1.5	1.3	7.2	4.1
	China	-0.2	5.6	5.0	5.3
	Hong Kong	-0.1	4.8	7.7	5.1
	India	0.0	7.9	9.5	5.9
	Indonesia	-1.0	1.5	9.9	5.4
	Singapore	-0.4	3.0	6.6	4.8
	South Korea	0.0	4.2	6.6	4.9
	Philippines	-1.0	1.9	8.3	5.3
Other Regions	US 10-year Treasuries	-0.5	0.5	3.8	4.4
	US Investment Grades (IG)	-0.4	1.5	5.5	4.8
	US High Yield (HY)	0.5	7.9	13.4	7.3
	Emerging Market USD Bond	-0.3	5.4	7.1	5.6

Source: Barclays indices, Bloomberg, BNP Paribas (WM) as of 18 November 2024

US Treasury 12-month Yield Targets (%)	2Y	5Y	10Y	30Y
	▲ 4.0	▲ 4.1	▲ 4.25	▲ 4.5

- We expect the **Fed to cut rate by another 25bp in December and then a quarterly cut in 2025 until the terminal rate reaching 3.75% by September 2025.**
- In the Eurozone, we **expect the ECB to have five more 25bp cuts, reaching a terminal deposit rate of 2% by September 2025.**
- We expect the US 10-year yield to drop modestly in the coming months and then rise in 2H 2025 as the macroeconomic landscape shifts. We have **revised our 12-month target for the US 10-year yield upwards to 4.25%.**. We remain neutral on US Treasuries.
- We continue to **favour investment grade corporate bonds.** Credit spreads will remain tight and may tighten further.
- We **downgrade EM USD and local currency bonds to neutral.** Fundamentals are positive, the carry is attractive, and EM central banks are expected to continue cutting rates in 2025. However, risks have increased with expected higher US bond yields and a stronger dollar. Additionally, tariffs and trade tensions will harm EM exporters.
- We maintain our **positive view on Singapore credit** as valuations of Singapore USD Tier-2 bonds look very favourable.

Forex & Commodities

POSITIVE NEUTRAL NEGATIVE

12-MONTH FOREX VIEW

Positive	Neutral	Negative
JPY USD	NZD AUD CAD INR CNY	EUR GBP

COMMODITIES

Positive	Neutral	Negative
Gold Base metal	Oil	-

- **EUR:** As the terminal Fed fund rate is expected to stabilise at a higher level than our previous forecast, while the ECB is expected to cut rate more aggressively than our previous expectation, the higher interest rate differential would be in favour of the USD relative to the Euro. We have revised down our EUR/USD target to 1.06 for the 3 month and 1.02 for the 12-month horizon.
- **JPY:** The Bank of Japan is still expected to increase its policy rate. Nevertheless, the Fed's terminal rate is expected to be higher than our original forecast. Hence, we have revised our USD/JPY target to 150 (value of one USD) for both 3-month and 12-month.
- **GOLD: We keep our positive view and revise up our 12-month target to $3000/oz.** The downside risk seems limited given further rate cuts, central banks' strategic purchases, geopolitical risks and strong appetite from private investors.
- **OIL: We remain neutral, with Brent's targe range to lower to $70-80.** The downside risks are increasing, if OPEC+ ramps up its production too fast or does not reach a convincing agreement. There is an upside risk of another escalation of the Israel-Iran conflict.
- **BASE METALS**: We have **strong conviction on copper** due to its prospect of strong demand growth and limited supply growth.

Forex Forecasts

		Spot	3-month		12-month	
		As of 18 Nov 2024	View	Target	View	Target
Developed	USD Index*	106.28	=	105.5	+	108.8
	Japan	155.0	+	150	+	150
	Eurozone	1.057	=	1.06	-	1.02
	UK	1.264	=	1.28	-	1.23
	Australia	0.648	=	0.66	=	0.64
	New Zealand	0.587	=	0.60	=	0.60
	Canada	1.405	=	1.38	=	1.40
Asia	China	7.245	=	7.20	=	7.30
	India	84.40	=	84.0	=	84.0

Source: BNP Paribas (WM) as of 18 November 2024
*BNP Paribas Global Markets forecast as of 18 November 2024

Note: + Positve / = Neutral / - Negative

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