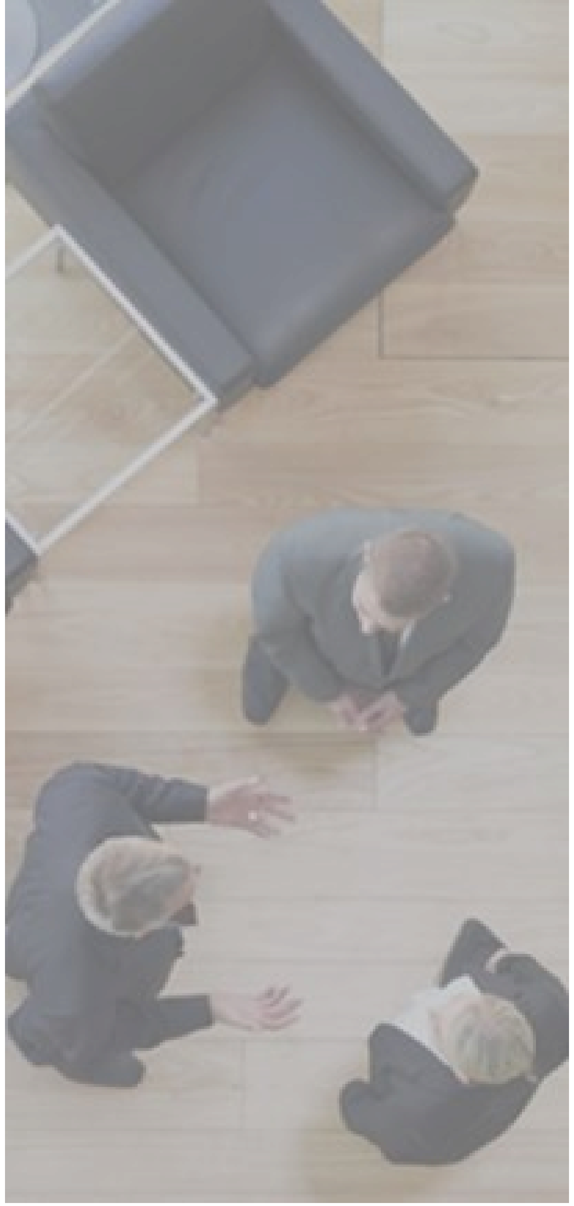
C.I.A. NETWORK

Asset Strategy in Brief

JULY 2025

BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world



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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 a 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 at 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 at 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. – Upgrade Europe to Positive from Neutral on repatriation flows, better macro growth outlook and infrastructure & defence spending plans. – 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.
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. Silver 12m target of USD 40/ounce. – Negative stance on Oil, price range for Brent crude oil of USD 60-70 on weaker global oil demand, potentially higher non-OPEC oil & gas 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 could lead to a weaker US dollar. – Our EUR/USD 3-month target USD 1.15 and our 12-month target USD 1.20 (value of one EUR). We change our 12-month USD/CNY target to CNY7.20 (value of one USD)

Asset Allocation

Allocation changes this month:

- **Equities: We upgrade Europe to Positive from Neutral.**

- **Bonds**: No change

- **FX**:
  - **EUR/USD: d**uring the past month, we have changed our 3-month target to 1.15 and our 12-month target to 1.20 (the value of one EUR)
  - **USD/BRL:** we have changed our 3-month target to 5.60 and our 12-month target to 5.80 (the value of one EUR).
  - **AUD/USD:** we maintain our 3-month target at 0.66 and we have changed our 12-month target to 0.66 (the value of one USD).
  - **USD/INR:** we have changed our 3-month target to 86 and maintain our 12-month target at 88 (value of one USD).
  - **USD/MXN:** we have changed our 3-and 12-month targets to 19 (value of one USD).

- **Commodities:** We maintain our Negative view on oil, but we changed our target range to USD 60–70 during the past month.

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	1.7	1.5	2.9	3.2	US Fed Funds Rate	4.50	4.25	3.50	US 10Y yield %	4.23	4.25
Eurozone	1.2	1.3	2.1	1.9	ECB Deposit Rate	2.00	1.75	1.75	Euro 10Y yield %	2.60	2.75
Japan	0.7	0.4	3.3	2.2	Bank of Japan Policy Rate	0.50	0.75	1.00	UK 10Y Yield %	4.49	4.20
UK	1.2	1.0	3.2	2.5	Bank of England Base Rate	4.25	4.00	3.25	S&P 500	6204	n/a
China	4.8	4.5	0.0	1.0	China 7D reverse repo rate	1.40	1.20	1.00	Euro STOXX 50	5303	n/a
									Oil Brent USD/bbl	67	60-70
									Gold USD/oz	3284	3300

Source: BNP Paribas WM. As at 1 July 2025

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Bonds

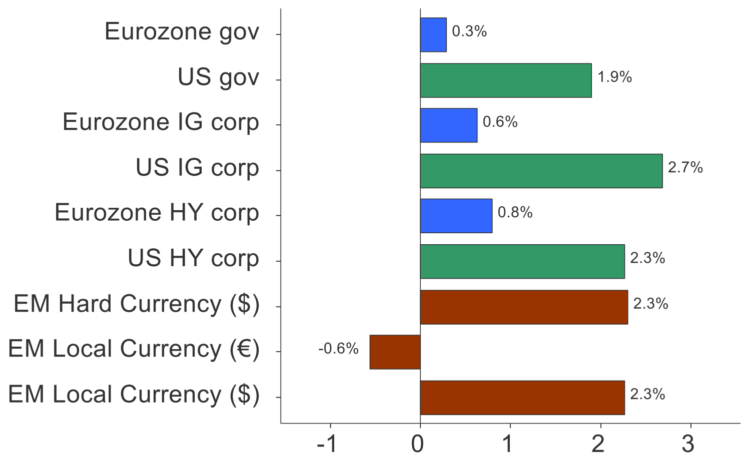
Fixed Income at a glance

Global risks, including fiscal, geopolitical and inflationary risks, continue to cause volatility and are likely to influence the outlook for the second half of 2025. Nevertheless, it is worth noting that volatility has decreased since its peak in April, which coincided with Liberation Day, and bond yields have fallen on average. Credit markets remain resilient, buoyed by strong demand and contained default risks.

We continue to favour high-quality, highly liquid bonds, particularly US, UK and core EU sovereign bonds, US TIPS and EUR/UK investment grade corporate bonds.

10-year yield	26/06/2025	12-month target
US	4.24	4.25
Germany	2.57	2.75
UK	4.46	4.20

Returns over one month



Source: LSEG Datastream, Bloomberg and JPM indices, 26/06/2025

Central Banks

We maintain our view that the ECB will cut rates one last time in this cycle (in September), leading to a terminal rate of 1.75%, and will hike rates in late 2026. In the US, we still expect two rate cuts this year and two in 2026, with a terminal rate of 3.5%.

Government Bonds

We keep our US 10-year yield target at 4.25% in 12 months but we fear short term volatility given high refinancing risks before year end. German long-term rates should be less volatile in the short term and rise in 2026 (target 2.75% by mid-2026). We stay Positive on US, UK and German government bonds US TIPS.

Peripheral bonds

Peripheral spreads have rallied, with Italian and Greek spreads at multi-year lows. Stronger fiscal positions, robust economic growth and ECB support have boosted investor confidence. Fund managers are now overweight periphery debt.

Corporate Investment Grade (IG) Bonds

We prefer EUR IG (Positive view) over USD IG (Neutral view) 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.

Corporate High Yield (HY) Bonds

Despite global risks, HY spreads have rallied. Defaults remain low and fundamentals are resilient. However, we prefer to maintain a Neutral stance as the asset class is overvalued and does not reflect the upcoming US slowdown.

Emerging Market (EM) Bonds

Spreads have tightened, but global risks persist. While EM debt offers value, we believe that current valuations and macroeconomic uncertainty justify a balanced stance.

Our position for this month

Evolution of our position since last month

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Currencies

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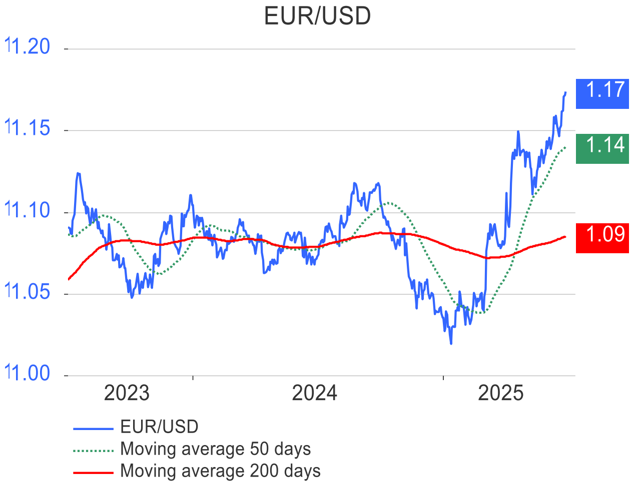
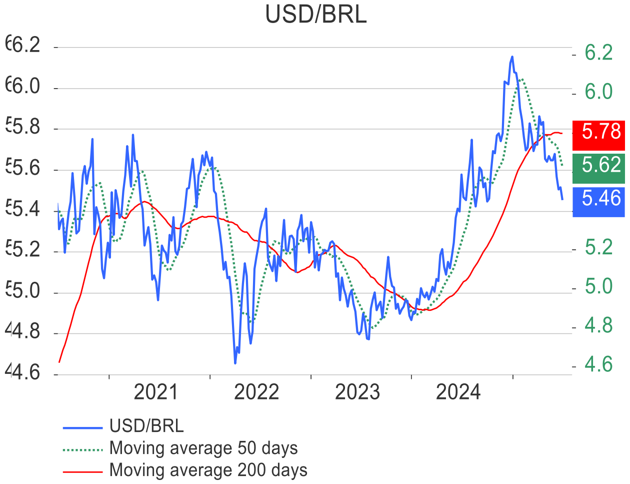
Currencies at a glance

1. **EUR/USD:** Recently, the dollar fell amid growing concerns among international investors. We continue to believe that capital is already being reallocated away from US assets — a trend that would not be reversed by a reduction in tariffs. The potential taxation of 20% of foreign investors' holdings in the US, coupled with ongoing fiscal pressure, reinforces our Negative outlook on the USD. **Therefore, we have changed our 3-month target to 1.15 and our 12-month target to 1.20 (value of one EUR).**
2. **USD/BRL**: The BRL could become more sensitive to local political or fiscal developments. In particular, a sharper-than-expected drop in tax revenues could worsen the already poor fiscal backdrop and increase market anxiety. A weaker US economy could lead to tail risk as Latin American currencies tend to be sensitive to slower US growth. **Therefore, we have adjusted our targets to 5.60 for 3 months and 5.80 for 12 months (value of one EUR).**



Source: LSEG Datastream, 30/06/2025



Source: LSEG Datastream, 30/06/2025

>> TARGET 12M EUR/CHF: 0.94

The SNB cut rates by 25bp in June to 0%. As Swiss holdings of USD assets are large, repatriation flows could be a significant tailwind. A return to negative interest rates would require sustained and significant concerns about medium-term deflation. The sustained high level of uncertainty should support the CHF. We see increased scope for FX intervention. **Our 3- and 12-month EUR/CHF targets are both 0.94 (value of one EUR).**

>> TARGET 12M AUD/USD: 0.66

The RBA cut its policy rate by 25bp to 3.85% in May. We maintain our view that the AUD will be influenced more by external factors, such as global risk appetite, US–China trade relations and Chinese growth, than by domestic fundamentals. **We maintain our 3-month target at 0.66 and we have changed our 12-month target to 0.66 (the value of one USD).**

>> TARGET 12M EUR/NOK: 11.30

Norges Bank lowered its deposit rate by 25bp to 4.25% in June. The NOK has depreciated excessively due to the unexpected rate cut and dovish stance adopted by Norges Bank. However, we believe that additional fiscal stimulus and positive interest rate differentials should provide support. **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 held interest rates at 4.25% in June. Weak UK growth and fiscal vulnerabilities could weigh on the GBP. Higher bond yields are constraining UK growth, which 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 USD/INR: 88

The RBI cut the interest rate by 50 bp to 5.5% in June. Following the de-escalation in the tariff war, the INR has strengthened. High-yielding currencies such as the INR could see increased portfolio inflows. However, uncertainty is likely to remain elevated, which is a headwind for EM assets reliant on portfolio inflows. **Therefore, we have changed our three-month target to 86 and maintained our 12-month target at 88 (the value of one USD).**

>> TARGET 12M USD/MXN: 19

The Banxico cut its policy rate by 50bp to 8.00% in June. The upside for the MXN is limited to due to the potential for changes to the USMCA treaty, the dovish stance of the Banxico, the possible decline in remittances resulting from a slowing US economy and a stricter US immigration policy. **Considering these factors, our new 3-and 12-month targets are at 19 (value of one USD).**

Currencies at a glance

FX FORECASTS EUR

	Country		Spot 30/06/2025	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1.17	Positive	1.15	Negative	1.20
	United Kingdom	EUR / GBP	0.86	Neutral	0.85	Neutral	0.87
	Japan	EUR / JPY	169.56	Neutral	167	Neutral	168
	Switzerland	EUR / CHF	0.93	Neutral	0.94	Neutral	0.94
	Australia	EUR / AUD	1.79	Positive	1.74	Neutral	1.82
	New-Zealand	EUR / NZD	1.93	Neutral	1.92	Negative	2.00
	Canada	EUR / CAD	1.60	Neutral	1.61	Negative	1.68
	Sweden	EUR / SEK	11.19	Neutral	11.00	Positive	10.70
	Norway	EUR / NOK	11.88	Positive	11.60	Positive	11.30
Asia	China	EUR / CNY	8.41	Neutral	8.28	Negative	8.64
	India	EUR / INR	100.67	Neutral	98.90	Negative	105.60
Latam	Brazil	EUR / BRL	6.41	Neutral	6.44	Negative	6.96
	Mexico	EUR / MXN	22.18	Neutral	21.85	Negative	22.80

Sources: BNP Paribas, LSEG

FX FORECASTS USD

	Country		Spot 30/06/2025	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1.17	Negative	1.15	Positive	1.20
	United Kingdom	GBP / USD	1.37	Neutral	1.35	Neutral	1.38
	Japan	USD / JPY	144.45	Neutral	145.00	Positive	140.00
	Switzerland	USD / CHF	0.80	Negative	0.82	Neutral	0.78
	Australia	AUD / USD	0.66	Neutral	0.66	Neutral	0.66
	New-Zealand	NZD / USD	0.61	Neutral	0.60	Neutral	0.60
	Canada	USD / CAD	1.36	Negative	1.40	Negative	1.40
Asia	China	USD / CNY	7.17	Neutral	7.20	Neutral	7.20
	India	USD / INR	85.76	Neutral	86.00	Negative	88.00
Latam	Brazil	USD / BRL	5.46	Negative	5.60	Negative	5.80
	Mexico	USD / MXN	18.89	Neutral	19.00	Neutral	19.00
EMEA	South Africa	USD / ZAR	17.77	Neutral	18.00	Neutral	17.50
	USD Index	DXY	96.88	Positive	98.83	Neutral	95.33

Sources: BNP Paribas, LSEG

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Equities

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New highs but concerns persist

Climbing a wall of worries

- **The glass is perceived as half full!** Markets managed to digest the attacks on Iran and the subsequent oil price spike very well. We think our narrative of a contained conflict with no serious retaliation options for Iran was quickly embraced by the market. Falling oil prices- and some constructive macro data ignited further buying.
- **There is still hope for cuts!** A weaker-than-expected consumer confidence report for June, which showed a drop in average 12-month inflation expectations, kept hopes of a rate cut alive. Separately, Fed Chair Powell appeared before the House Financial Services Committee to deliver his semi-annual monetary policy report. He expressed his belief that tariff increases will likely push up prices and impact economic activity this year but also showed an open mind on future policy action. The Fed Chair conceded that there are many possible paths, one of which is that inflation could be lower than expected, suggesting that the Fed could cut rates sooner. We still expect two rate cuts this year.
- **The market seems not fully convinced (yet)** Although both the Nasdaq and the MSCI ACWI hit new all-time highs, market internals suggest that equities are discounting a more cautious view than the movements of the headline indices might suggest. Over the last six months, there has been a significant discrepancy between the performance of the EU beta factor and headline index movements, while the performance of cyclical versus defensive stocks in the US has continued to lag behind movements in the S&P 500.

Main recommendations

Upgrading Europe to overweight – We believe that the conditions are right for European equities to resume their outperformance, as uncertainties fade and upside risks to growth emerge. Tariff tensions appear to be easing, and fiscal stimulus plans are being implemented. The case for the MDAX is particularly appealing within Europe. It is one of the main beneficiaries of growth surprises in Europe and lower interest rates, and appears undervalued given its growth prospects. Furthermore, we favour domestic exposure among large caps.

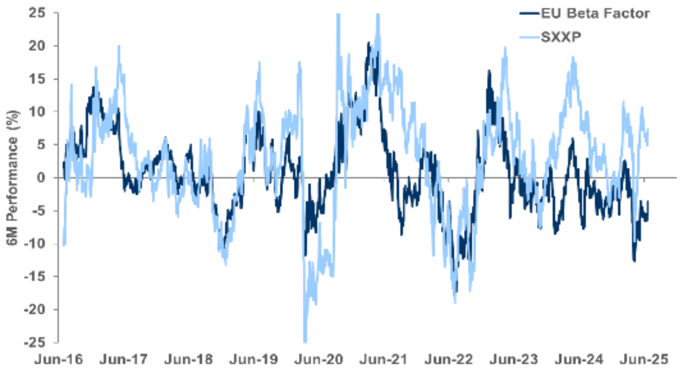
Remaining Neutral on equities overall - This is due to: i) high US valuations; ii) the risk of a more severe US economic slowdown; and iii) the residual risk of trade talks failing. Therefore, we prefer to maintain a degree of caution, as a resurgence in volatility may present investors with more attractive opportunities to increase their overall equity allocation.

No Sector changes– In this context of a weakening USD, we remain cautious on EU exporters. We prefer European sectors that should benefit from infrastructure plans and other economic stimulus measures. European banks are still cheap (forward P/E = 8.4), but after the recent rally, consolidation may be necessary. Be selective.

The key risk is a US recession, which would cause earnings growth to turn Negative in most major markets. A stagflationary episode in the US, causing the Fed to raise interest rates, would be a kind of Black Swan Event!

The MDAX looks cheap given its expected growth

Beta still lags the market in Europe



Asian Equities view

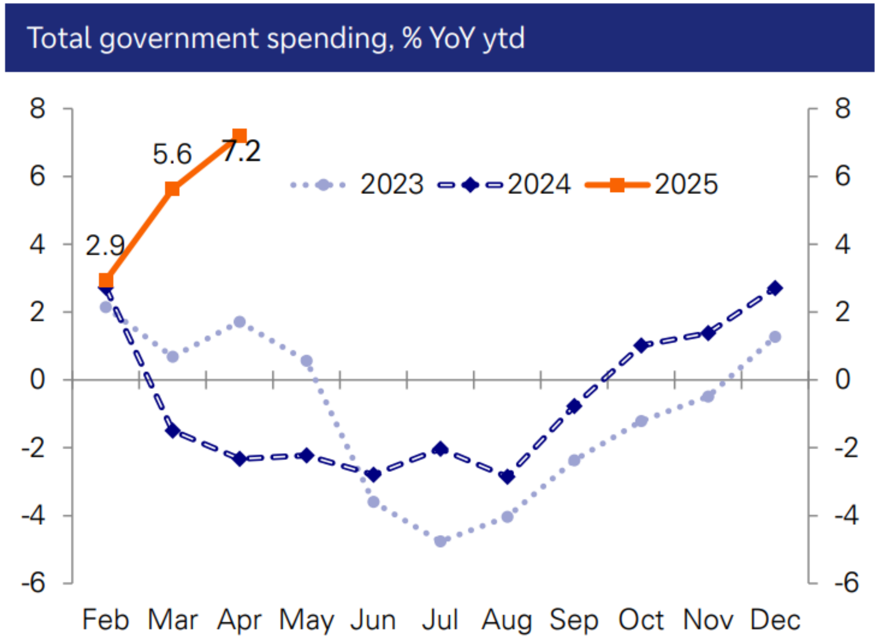
ASIA COUNTRY PREFERENCE

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

- **China** – Despite the US-China trade agreement, markets are questioning the durability of the trade truce. Hence, short-term uncertainty remains. Monetary support looks set to continue. The Chinese government has also unveiled a further 19 measures to boost consumer spending and provide financial support for key sectors. We believe that downside risk is limited given the government's 'policy put' to support the economy and stock markets. Valuations for Chinese equities (especially those listed in Hong Kong) and the Chinese tech sector (with upward earnings revisions) remain attractive. China's banks and telecoms companies continue to offer attractive dividends. Possible catalysts include: i) stimulus measures that are better than expected; ii) earnings and guidance from Chinese tech companies that beat consensus forecasts; and iii) a significant de-escalation in US–China tensions.
- **India**'s CPI inflation remains well below the central bank's target of 4%, that enabled it to cut interest rates by more than expected in early June, by 50 basis points. Indian markets are well placed amidst global uncertainty and trade tensions. A weaker dollar and lower inflation suggest that foreign inflows could continue in the coming months. Given the valuations, India will continue to be a "buy on dips" story.

China's equities are poised to rise further, driven by catalysts following the rally earlier this year.

Fiscal spending continues to increase, demonstrating the government's commitment to boosting domestic demand



Source: Deutsche Bank Research, NBS, as of 25 June 2025

05

Commodities

Commodities at a glance

The performance of **industrial metals** has been mixed year-to-date: iron ore (-9%) and zinc (-11%) have fallen, while copper (+15%) and tin (+13%) have risen, and aluminium has recovered over the last month (+3% year-to-date). While the trade war has increased fears of a slowdown in global growth, there has also been some upfront buying of certain metals (such as copper) due to concerns about US tariffs.

In June, **Brent price** spiked from USD 65 to USD 78 due to the military conflict between Israel and Iran, and the US strike on Iran's nuclear facilities. This boosted fears of a disruption to the Strait of Hormuz. In view of the current ceasefire, the worst seems to be over, and the Brent price has fallen again, reaching USD 67 (down 10% year-to-date). However, OPEC+ production hikes and non-OPEC supply additions will probably continue to weigh on oil prices.

The gold price is consolidating around our target of USD 3,300, with only a minor uptick to USD 3,430 during the military strikes on Iran. Other precious metals, such as silver and platinum, have increased in value over the last month. Gold is up 27% year-to-date, silver +25%, and platinum +43%.

BASE METALS

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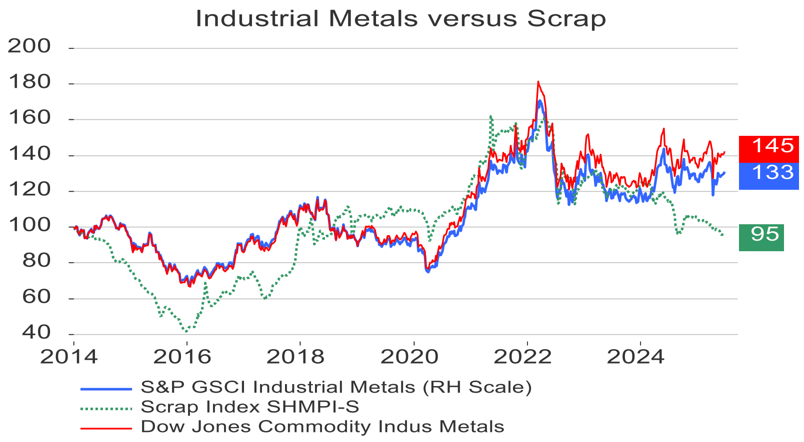
We remain Neutral for the short term, in view of the possible economic slowdown due to the trade war. In the longer term, however, we still expect the growing demand for energy transition and infrastructure to outpace the expected growth in supply.

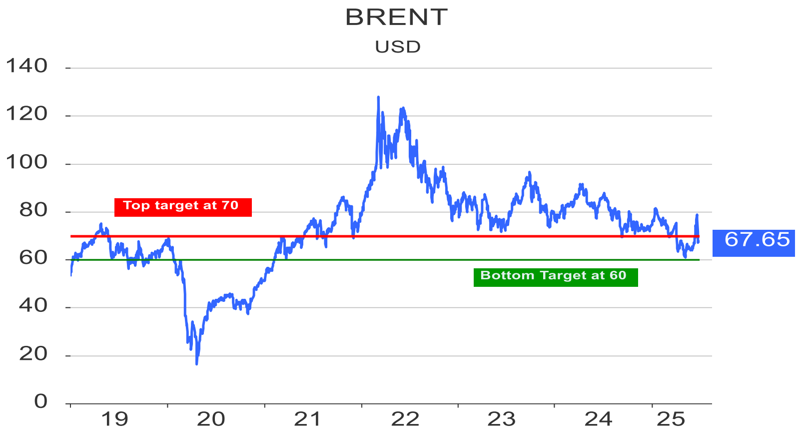


Source: LSEG Datastream, 30/06/2025

OIL

—

We maintain our Negative view, with a target range of USD 60–70, given the reduced risk of disruption to the Strait of Hormuz, Trump's policy of favouring lower oil prices, and limited demand growth, combined with substantial non-OPEC supply growth and OPEC+ production hikes.



Source: LSEG Datastream, 30/06/2025

GOLD

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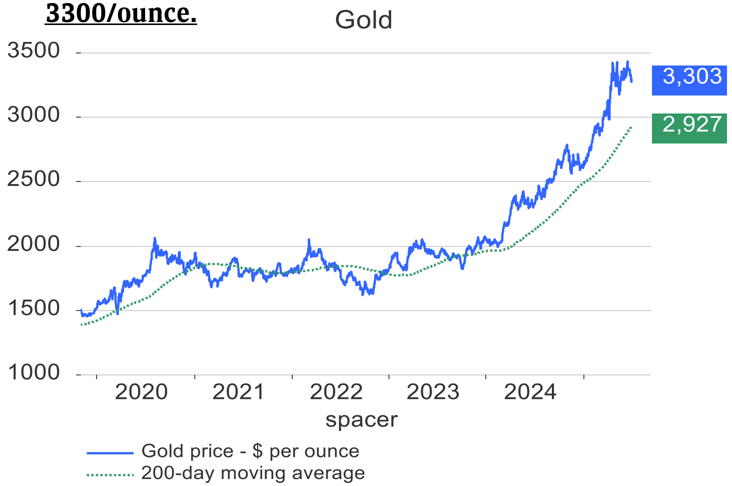
After the sharp rally, we became Neutral in early May as we expected some consolidation due to a possible de-escalation of the trade war and military conflicts. We also observed some substitution in the jewellery market. Gold could continue to fulfil its safe-haven role if trade and/or military tensions were to escalate again, or if investors were to become more concerned about US deficits and debts. **For the time being, we are staying Neutral. Our 12m target is USD 3300/ounce.**



Source: LSEG Datastream, 30/06/2025

⊕ ⊖ ⊜ Our position for this month

▲ ▼ ▲ Evolution of our position from last month

06

Alternative Investments

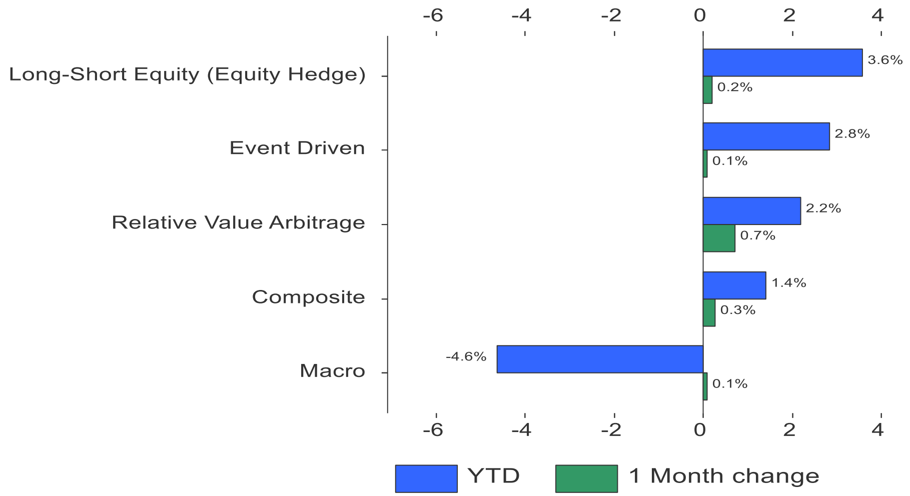
Alternative Investments

The past month was generally positive, except for macro.

Since January, performance has been positive overall, with Long-Short Equity being the best performers, while Macro has underperformed.

Positive opinion on Long-Short equity and Relative Value.

Alternative UCITS (HFRU index)



Source: LSEG Datastream, 25/06/2025

Global Macro

Neutral: Managers have uninvested cash because they primarily use futures and derivatives. Although CTAs are hard to time by definition and are challenged by today's unpredictable US measures, they have a place in a portfolio as a tail hedge against extreme events in a long-lasting market drawdown.

Event Driven

Neutral: Erratic Trump policies have dampened the enthusiasm for new deals. CEOs are also likely to reconsider their corporate strategies in view of the uncertainty surrounding tariffs. Year-to-date, corporate activity has remained at last year's low volume, with cross-border deals into the US being particularly rare. Most current deals have been progressing well, however, and the outlook is positive. New distressed investment opportunities are bound to arise from higher funding costs and the potential for an economic slowdown or recession.

Long-Short Equity

Positive: Intra-market equity dispersion has returned to historically high levels, with a significant disparity between expensive and cheap stocks. This creates favourable conditions for identifying long and short stock opportunities. Despite the pain caused by recent market turmoil, the high level of volatility is positive for Equity Long/Short and active management. Tariff uncertainties have created ample long and short opportunities in specific areas.

Relative Value

Positive: Despite some significant and brief spread widening following "Liberation Day", credit markets have remained orderly thus far. However, volatility and spread widening may stem from Trump's potentially inflationary measures, which could hinder further monetary easing. Credit dispersion may increase as high-yield companies face 'higher for longer' interest rates as their debt matures, with some likely to struggle under significantly higher funding costs.

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DISCLAIMER

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