JULY 2025

Investment Strategy Focus

Stocks ignore Middle East to return close to highs

Summary

1. **Middle East conflict drives up oil volatility more than crude oil prices:** the introduction of the US into this conflict raises the stakes for the global oil market and economy. However, the latest ceasefire has calmed oil prices, allowing global stocks to return close to all-time highs.
2. **Domestic US Treasury bond demand stimulated by bank deregulation:** the bond market remains the key financial market to watch, given rising US deficits. We advise benchmark or below-benchmark maturities in government and corporate bonds and buying on weakness.
3. **Continued pressure on US dollar:** despite the 13% appreciation of the euro vs. the US dollar this year, we expect a further long-term decline against major currencies and against gold. The potential repatriation of capital from the US to Europe and Asia remains a powerful force.
4. **Upgrade European equities to Positive:** eurozone economic momentum has improved, we begin to see lower uncertainty over US tariffs, and we expect economic benefits from the German infrastructure & defence spending plans. European and German mid-caps should benefit from stronger domestic economic momentum.
5. **Residential property rallies:** lower ECB benchmark rates boost mortgage demand, while rental demand remains robust in key European cities. Expected average annual return over the next 5 years is 7%-8%, based on a 4% rental yield and above-inflation rental growth.

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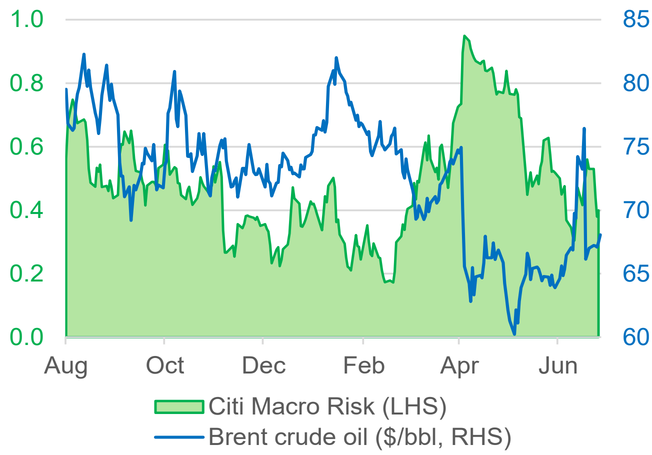
BRENT CRUDE OIL PRICE RISES BUT STILL FAR BELOW JULY 2024 LEVELS



Source: BNP Paribas, Bloomberg

Edmund Shing, PhD

Global CIO
BNP Paribas Wealth Management

Macro, Market Views

Macro		– Rising policy uncertainty and tariff concerns are starting to weigh on US domestic investment and consumption. Expect small business activity and employment to be hit by a halt in import shipments and freeze on investments. – In the eurozone, consumer confidence is supported by continued ECB rate cuts. The announced German stimulus plan should boost long-term potential growth. Chinese stimulus could bring positive surprises.
Rates	+	– Positive on core eurozone government bonds (intermediate maturities preferred) and on UK gilts (12-month yield target is now 4.2%). – Positive on US Treasuries; prefer intermediate (5-7 year) maturities. US, Euro central banks to cut benchmark rates to 4%, 1.75% by end-2025 – We see the US 2-year yield at 3.6% in 12 months, 10-year yields at 4.25%. Our 12-month target on the German 10-year bund yield has been raised to 2.75%.
Credit	+	– We stay Positive given solid corporate balance sheets and cash flows, strong technicals, high carry and low volatility. We prefer intermediate maturities in the eurozone and in the US. – We continue to like EUR IG corporate bonds, and we stay Positive on UK IG corporates (offering a 5.5% average yield).
Equities	=	– We maintain a Neutral strategic view on Equities. Potential for a further short-term rebound on excessive pessimism and prospect of softening US policy. – 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.
Commod-ities	+/-	– 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.
Alternative UCITS/ Private Assets	=	– We favour relative value equity, credit, and convertible arbitrage funds for their robust risk-adjusted returns at low volatility. – Attractive yield opportunities on private debt strategies, including Collateralised Loan Obligations (CLOs) and Insurance–Linked Securities funds (catastrophe bonds).
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)

Upgrading European Equities to Overweight

Stephan Kemper

From progress on trade towards....

Most recently we have noticed some major progress with several factors which so far prevented us from turning more positive on European equities. We now see the stars aligning for European equities to resume their outperformance as uncertainties fade and upside risks to growth emerge.

Tariffs have been a Damocles sword hanging above the profitability of European companies. Apparently, major progress has been made in negotiations during the last couple of days as both EU and US officials voiced optimism that a deal could be reached before the deadline (9 July) to avoid an economically damaging escalation. US Commerce Secretary, H. Lutnick, even went as far as saying "*Europe has done an excellent job, they're working hard. I'm optimistic — I think we can get a deal now.*"

We think that this de-escalatory rhetoric is a positive sign as well for the ongoing investigations of the US Commerce Department on certain sectors. The risk of sector specific levies applied under Section 232 of the Trade Expansion Act looks lower if a trade-agreement has been reached. A deal potentially addresses at least some of the issues those investigations may uncover. Thus, it could prevent those levies from being implemented or at least lower the applied level. We would highlight the fact that Section 899 has been dropped from the OBBBA (One Big Beautiful Bill Act) in this respect as a positive sign as well.

..one big beautiful spending plan

With the overhang from trade looking substantially less gloomy, we think that the market focus may eventually shift to the positive economic backdrop in Europe. At this week's NATO summit, member states committed to a significant structural shift in defence spending, targeting 5% of GDP by 2035.

Echoing this, the Germany published plans to increase defence spending by over 70% by 2029—from EUR 95bn this year to EUR 162bn—equivalent to approximately 3.5% of GDP.

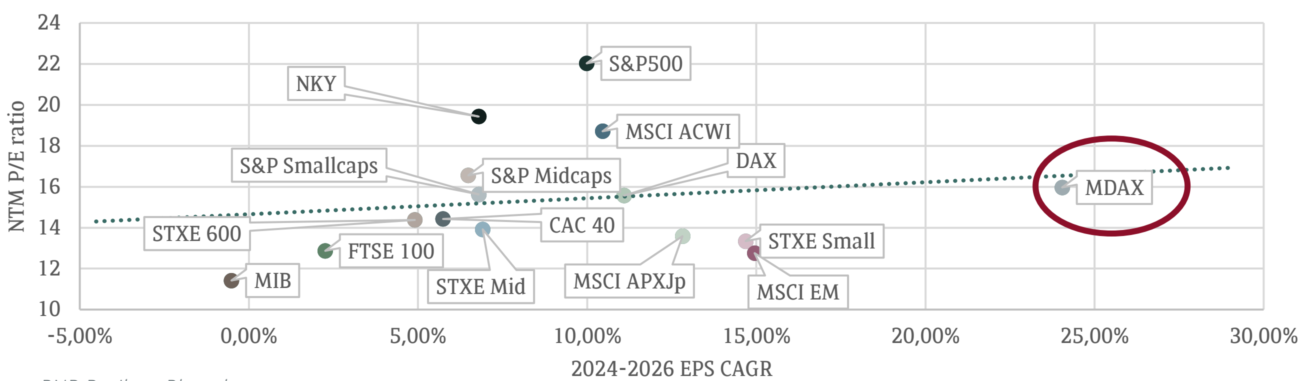
This surge in spending is part of a bigger fiscal reform agenda in Germany, looking to boost investments in infrastructure, lowering taxes and cutting red tape. Indeed, Germany's 2025 draft budget and medium-term fiscal outline delivered an upside surprise to this year's combined defence and off-budget investment spending of around EUR 8 billion. With investment spending tending to have a higher fiscal multiplier, a faster deployment should be net positive for the growth outlook. It points to upside risks to our GDP growth forecast of 0.5% for 2025 and 1.0% for 2026.

Prefer domestic exposure but keep some powder dry

German equities offer a compelling mix of valuation support, earnings momentum, and policy tailwinds. With ~1/3 of revenues derived from Germany and consensus EPS growth of ~20% in both 2025 and 2026, the MDAX remains attractively valued despite its strong YTD gains.

Despite increasing the weight of European Equities within our equities allocation, we keep a Neutral rating on equities in our overall asset allocation. 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. We are optimistic that Europe should be able to outperform in a potential US-born correction, thus we´re comfortable about starting to build an EU overweight now. Nevertheless, we prefer to keep some powder dry as chances are that a resurgence in volatility may present investors with more attractive opportunities to increase their overall equity allocation.

THE MDAX OFFERS AN APPEALING GROWTH / VALUATION MIX



Source: BNP Paribas, Bloomberg.

A tenuous Israel-Iran ceasefire

Middle East conflict spurs oil market volatility

The intensification of the Israel-Iran conflict in recent days has sparked a surge in uncertainty around the security of global crude oil and natural gas supplies. The Brent crude oil benchmark price initially jumped 20% from its end-May level to USD 79/barrel, while CBOE oil price volatility surged to USD 69 (vs. a long-term median of USD 35). This reflected a higher risk of a triple-digit oil price in the event of any long-lasting disruption to seabound oil supplies from the Gulf.

Now a ceasefire is in place

Following the surprise US attack on Iranian nuclear facilities, a tenuous ceasefire between Israel, Iran and the US has now been put in place. As is typical with such ceasefires, observance is not 100% by all sides and the relative peace remains fragile.

The reaction in global oil and natural gas prices has been immediate: Brent crude has slipped USD 11 to USD 68/barrel, while the European TTF natural gas benchmark has eased back from a recent peak of EUR 42/MWh to under EUR 36.

The Iranian regime looks to retain power

The current Iranian Ayatollah has been in power for 36 years since 1989. The overriding immediate goal of this Islamic Republic's regime is to retain domestic power, even as its influence in the broader region has been eroded by the fall of the Assad regime in Syria, and the Israeli attacks on Hamas and Hezbollah. Equally, it is not in the interests of the Israeli government to conduct a long drawn-out war with Iran, given the vulnerability of Israeli key energy and water infrastructure sites to Iranian missile attack.

Oil continues to flow without interruption

To date, there have been no attacks on the region's critical oil infrastructure, nor has Iran attempted to close the Straits of Hormuz in spite of the symbolic declaration by the Iranian parliament that Iran should do so. Crude oil and Liquefied Natural Gas (LNG) have continued to flow from the Gulf principally to Asia.

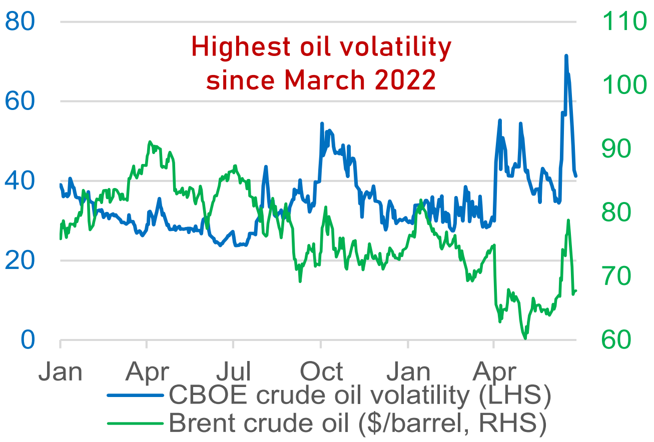
Given that Iran continues to ship crude oil to China via the Straits of Hormuz, it is not in Iran's economic interest to disrupt shipping in this vital channel given the risk of alienating such an important trade partner.

Recall that Saudi Arabia and the United Arab Emirates have substantial spare oil production capacity of 6 million barrels/day, allowing them to keep the global oil market well supplied even if there is a disruption to Iranian oil exports.

Oil market fundamentals augur for an oil price around USD 60 or potentially even lower

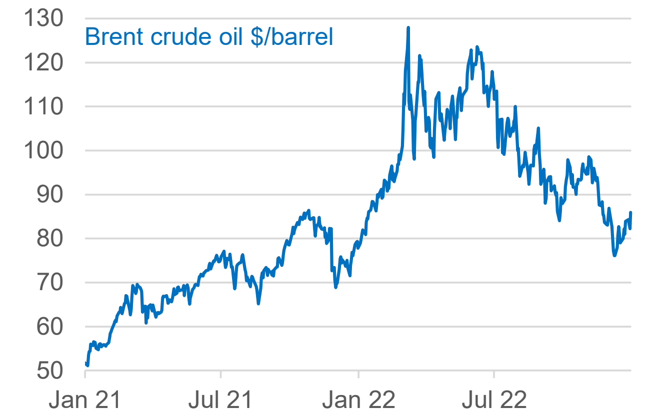
The consensus expects the world to have abundant supplies of oil by the end of this year, as OPEC+ plans to raise oil production further in July on top of the quota increases in May and June. Given these higher production quotas, BNP Paribas Global Markets forecast the Brent crude oil price to fall further to USD 62/barrel by the end of this year. This is in line with President Trump's desire for lower oil prices, to provide relief to American households via lower living costs. This lower oil price would have a positive impact on global growth, as higher oil prices act as an effective growth tax on oil-importing nations.

OIL PRICE UNCERTAINTY SURGES ON ATTACKS, THEN COOLS ON CEASEFIRE



Source: BNP Paribas, Bloomberg.

OIL PRICE REMAINS FAR FROM 2022'S PEAK



Source: BNP Paribas, Bloomberg

Short-term oil volatility should have little longer-term impact

Watch Brent crude oil, European TTF gas prices

The key risks to global oil and LNG supply come in the form of:

a. a potential Israeli attack on Iranian oil export terminals on Kharg Island, plus the risk that

b. Iranian military action serves to close the Straits of Hormuz to oil tanker traffic (through which oil exports from Saudi Arabia, the United Arab Emirates and Iran all pass).

If the current ceasefire falls apart, then there is the threat of renewed US attacks on Iranian nuclear infrastructure – a good reason for Iran to respect the calming of hostilities with Israel.

What matters is the duration of any oil price spike

Crude oil prices remain 20% lower than a year ago, while US gasoline pump prices are 16% lower than a year ago. For there to be a durable impact on inflation, oil prices need to remain at elevated levels for months rather than days.

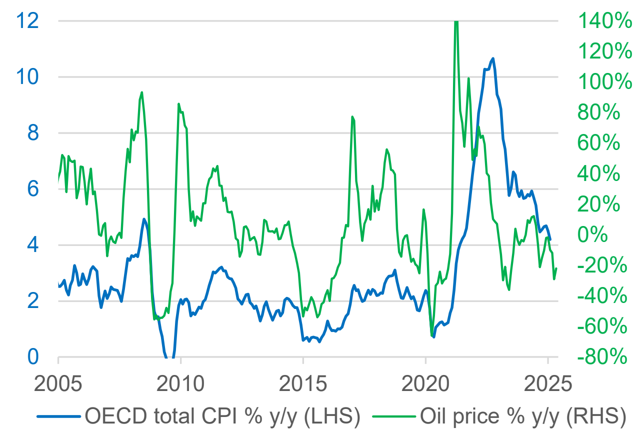
This was notably the case in the wake of the Russian invasion of Ukraine in February 2022. At that time, Brent crude rose from USD 70/barrel at the end of 2021 to peak at USD 120 in early 2022, then staying above USD 90 until the end of that year. The drag on global growth that resulted from this persistently elevated oil price was a key factor behind the slump in global stock markets for much of that year.

Oil price spikes have often resulted in strong stock performance

If we analyse periods since 2008 when oil price volatility has been elevated, we observe that the subsequent 3, 6 and 12-month performance of global stocks has typically been far better than average. For instance, following a surge in oil price volatility to a reading of over 50, the average subsequent 6-month return of global stocks has been +10%, and +21% over the following 12 months. Once again, buying stocks at a time of heightened geopolitical uncertainty is statistically a good strategy to follow.

Conclusion: while geopolitical uncertainty has evidently increased given the latest Israel-Iran attacks, a good entry point into stock markets may surprisingly be close at hand.

GLOBAL INFLATION FOLLOWS OIL PRICES WITH A LAG



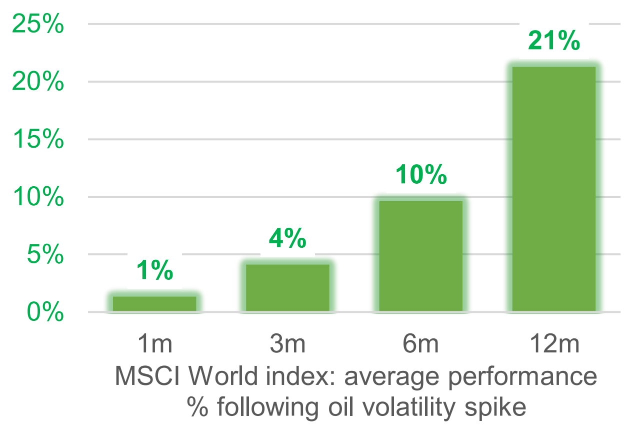
Source: BNP Paribas, Bloomberg

THE IEA AND EIA EXPECT 2025 NON-OPEC SUPPLY TO OUTGROW WORLD DEMAND

2025 growth estimates	IEA	EIA	OPEC
Demand	0.7	0.8	1.3
Non-OPEC supply	1.4	1.3	
o/w US	0.5	0.2	0.3
o/w Canada	0.2	0.2	0.1
o/w Brazil	0.3	0.2	0.2
o/w China	0.0	0.1	0.0

Source: BNP Paribas Exane. IEA = International Energy Agency, EIA = US Energy Information Administration

SPIKE IN OIL PRICE VOLATILITY OFTEN PRECEDES STRONG STOCK PERFORMANCE



Source: BNP Paribas, Bloomberg. Note: weekly instances when OVX oil volatility exceeds a reading of 50 since 01/01/2008.

“Bond vigilantes” pressure governments into action

Government spending concerns bond investors

US and Japanese 10-year government bond yields took a breather in June, easing back modestly to 4.2% and 1.4% respectively. In both cases, bond investors remain concerned by a combination of elevated government spending and high existing government debt burden as a percentage of GDP.

Japanese debt/GDP has marginally declined since 2020 but is still an incredible 246% of GDP, while US debt/GDP has grown from just over 60% of GDP in 2008 to 126% today. Trump’s “Big Beautiful Bill” contains further tax cuts which will likely drive this debt/GDP ratio even higher in the coming years.

Japan’s Ministry of Finance to alter bond issuance

Given the sharp rise in ultra-long JGB bond yields since September last year, the Japanese Ministry of Finance has altered its bond issuance schedule to include a much lower share of super-long bonds, favouring instead short-term Treasury bills. This shift in issuance strategy should simultaneously cap the interest cost of new debt to the Japanese government, while also relieving pressure on 30- and 40-year bond yields through lower new issuance at these maturities.

US to proceed with banking deregulation to stimulate domestic bond demand

The US Treasury Secretary Scott Bessent has confirmed that the Supplementary Leverage Ratio of US banks should be eased, allowing banks to buy more Treasury bonds for a given amount of capital. Expect further measures to stimulate US domestic Treasury bond buying to be unveiled in the coming months.

The Federal Reserve: more dovish in 2026?

As part of this shift on bond flows, the Federal Reserve is likely to end their current policy of selling bonds to shrink their balance sheet (quantitative tightening) in the near future. Since mid-2022, the Fed has reduced their balance sheet by a cumulative USD 2.3 trillion (25% of peak balance sheet size).

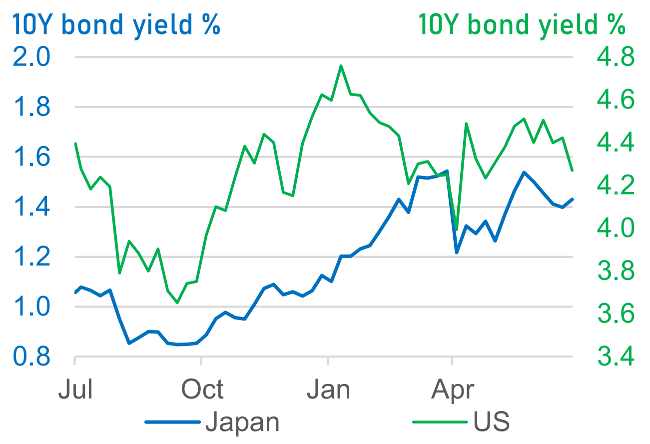
This could be a prelude to the Fed returning to the policy of bond buying (quantitative easing) that was employed notably in the wake of the Global Financial Crisis (2008-14), and again around the COVID pandemic (2020-22).

The interest rate futures market prices a Fed Funds rate 1.2% lower by end-2026 than today, with the majority of interest cuts expected once Jerome Powell’s term as Fed President ends mid next year. The market assumes that the next Fed President, to be appointed by President Trump, will adopt a “dovish” interest rate policy that will favour employment and economic growth over a strict 2% inflation target.

The likelihood then, is that the combination of US fiscal (directed by the US Treasury) and monetary policy (directed by the Federal Reserve) will allow the US economy to “run hot”, generating 5-6% nominal GDP growth annually in order to allow the tax base to grow at a similar pace. This strategy should help to ensure the sustainability of US federal debt in the absence of substantial spending cuts.

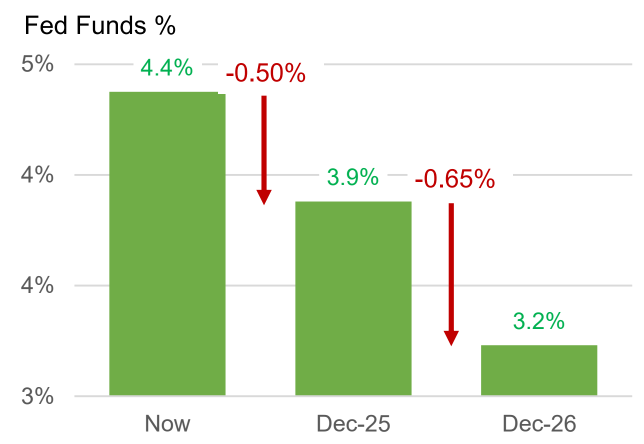
Conclusion: we advise benchmark or below-benchmark maturities in government and corporate bonds, with a buy on weakness strategy.

US AND JAPAN 10-YEAR BOND YIELDS EASE LOWER IN JUNE



Source: BNP Paribas, Bloomberg.

INTEREST RATE FUTURES PRICE 3.2% FED FUNDS BY END-2026



Source: BNP Paribas, Bloomberg.

Real estate focus: attractions of residential property

Lower interest rates stimulate mortgage demand

The two most important factors determining the evolution of demand in residential housing markets are i) the strength of the employment market in terms of employment level and wage growth, and ii) the cost of financing as determined by short- and long-term interest rates.

As is typically the case, the current recovery in European residential property markets is uneven. Those regional markets with a combination of i) stronger domestic economic growth, and ii) higher sensitivity to variable interest rates via residential mortgage interest rates, such as Spain and Sweden, are recovering faster. Recent interest cuts by the European Central Bank and the Swedish Riksbank should reinforce positive mortgage demand in these markets.

In Q1 2025, Spanish house prices climbed over 12% on a yearly basis, while Swedish house prices returned to all-time highs, up 10% y/y. In contrast, French house prices only advanced by 1% in Q1 y/y, with French long-term fixed mortgage rates not moving much and remaining above 3%.

European listed real estate performs well in 2025

Since the start of this year, listed European REITs have returned 9.1%, slightly ahead of the STOXX Europe index. This follows a relatively poor 2024 where European REITs returned only -3%.

Strong demand drivers for residential property

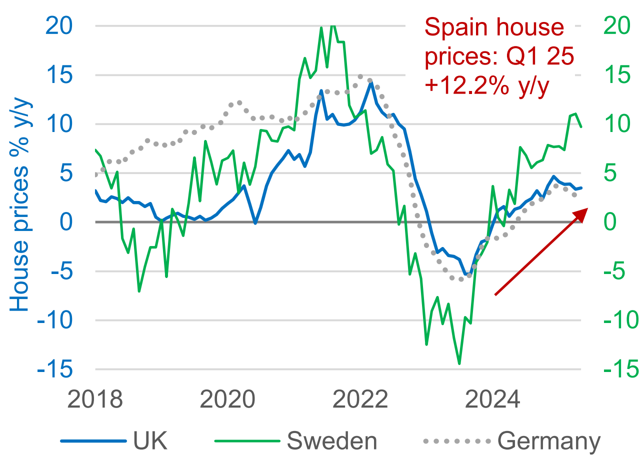
Institutional real estate investors have traditionally concentrated on 3 main segments for investment: offices, retail (both shopping centres and high street retail) and industrial/logistics (largely warehouses). However, residential is today a fast-growing segment within these large real estate investment portfolios, given the relatively defensive and counter-cyclical characteristics of residential property. When people cannot afford or are too cautious to buy in uncertain economic times, they continue instead to rent.

Attractive residential property supply-demand characteristics in big European cities have been enhanced by structural demand growth from short-term rental properties dedicated to Airbnb in cities such as Barcelona and Amsterdam.

In terms of rental yield, at 4.0% the European residential sector yields less than prime offices (4.7%) or prime Logistics (4.3%) according to BNP Paribas Real Estate. But its diversification characteristics in a real estate portfolio are attractive, as are the prospects for rental growth (in excess of underlying inflation) and from revaluation as mortgage rates decline. The 5-year average total return from European residential property should thus fall into the 7%-8% range. With inflation likely to average close to 2%, this suggests an attractive 5%+ real return from residential property.

This compares favourably to other real estate segments, and particularly attractive compared to prevailing bond yields and cash deposit rates.

EUROPEAN HOUSE PRICES ON THE RISE



Source: BNP Paribas, Bloomberg.

2025-29: 7.7% RETURN EXPECTED FROM EUROPEAN RESIDENTIAL REAL ESTATE

Source: BNP Paribas, AEW

Summary of our main recommendations, by asset class

	Current Recom	Prior Recom	Segments	We like	We avoid	Comments
EQUITIES	=	=	Markets	Eurozone, UK, Japan, China, Singapore, South Korea	US	Geopolitical uncertainty remains extreme, arguing for near-term prudence. We hold our Equities recommendation at Neutral, awaiting more positive signals on tariffs and liquidity. Our US stock recommendation remains Negative.
			Sectors	Global Health Care, Utilities, EU Industrials, EU Materials, EU Banks	EU Oil & Gas, Consumer Staples, US IT, US Consumer Discretionary	**Banks** should benefit from improving loan demand, elevated Net Interest Margins & loan loss provisioning. **Health Care** has benefited from a strong earnings season and promising drug pipelines.
			Styles/ Themes	Quality, Megatrend themes		Circular Economy, Electrification, Security, Deep Value themes
BONDS	+	+	Govies	Favour intermediate euro and US duration		Positive on intermediate maturity core eurozone, UK government bonds, US Treasuries. 12-month US 10Y yield target 4.25%, German 10Y bund yield 2.75%, UK 10Y gilt yield 4.2%.
	+	+	Credit	Euro IG credit, UK IG		We favour investment grade Credit, focusing on EU credit on the back of decade-high yields and strong balance sheets. We remain Positive on UK IG corporate bonds.
	=	=	EM bonds	USD and local currency		Neutral on EM bonds given risks ahead (trade barriers, high-for-longer US yields and tight valuations. Good fundamentals remain in place.
CASH	-	-				2 cuts to take Fed Funds rate to 4% by end-2025, 1.75% for the ECB deposit rate.
COMMO-DITIES	+/=/-	+/=/-		Gold (+) Silver (+)	Oil (-)	Oil (-) Weaker global oil demand and the prospect of a steady reduction in OPEC+ production cuts force Brent prices into the USD 60-70 range. Base metals (=) The outlook for the manufacturing sector is eroded by tariff hikes. Gold (+) Neutral on tactical view, Positive for the longer term (buy on dips), 12-month range = USD 3300.
FOREX			EUR/USD			Our EUR/USD 12m target is USD 1.20.
REAL ESTATE	=	=		Residential, Health Care, logistics/ warehouses		Lower interest rates and a slow improvement in net asset values should support unlisted real estate.
ALTERNATIVE UCITS				Long/Short Equity, Credit and Relative Value, Convertible Arbitrage		Relative value alternative UCITS funds have beaten bond/credit indices since the start of 2023, offering lower risk returns, at low volatility.
INFRA STRUCTURE	+	+		Energy, transportation, water		Excellent long-term returns expected from private and listed infrastructure given long-term underinvestment.

Economic, FX forecast tables

BNP Paribas Forecasts			
GDP Growth %	2024	2025	2026
United States	2.8	1.7	1.5
Japan	0.1	0.7	0.4
UK	1.1	1.2	1.0
Switzerland	0.9	1.3	1.5
Eurozone	**0.8**	**1.2**	**1.3**
Germany	-0.2	0.5	0.8
France	1.1	0.6	1.1
Italy	0.5	0.8	1.3
Emerging			
China	5.0	4.8	4.5
India*	8.2	6.5	6.3
Brazil	3.4	2.4	1.3

* Fiscal year
Source : BNP Paribas - 30/06/2025

BNP Paribas Forecasts			
CPI Inflation %	2024	2025	2026
United States	2.9	2.9	3.2
Japan	2.7	3.3	2.2
UK	2.5	3.2	2.5
Switzerland	1.1	0.2	0.7
Eurozone	**2.4**	**2.1**	**1.9**
Germany	2.5	2.3	2.0
France	2.3	0.9	1.2
Italy	1.1	1.7	1.7
Emerging			
China	0.2	0.0	1.0
India*	5.4	4.6	4.1
Brazil	4.4	5.5	4.8

* Fiscal year
Source : BNP Paribas - 30/06/2025

	Country		Spot 29/06/2025	Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1.17	1.15	1.20
	United Kingdom	EUR / GBP	0.85	0.85	0.87
	Switzerland	EUR / CHF	0.94	0.94	0.94
	Japan	EUR / JPY	169.78	167	168
	Sweden	EUR / SEK	11.12	11.00	10.70
	Norway	EUR / NOK	11.82	11.60	11.30
Against dollar	Japan	USD / JPY	144.89	145	140
	Canada	USD / CAD	1.37	1.40	1.40
	Australia	AUD / USD	0.65	0.66	0.66
	New Zealand	NZD / USD	0.61	0.60	0.60
	Brazil	USD / BRL	5.49	5.60	5.80
	India	USD / INR	85.49	86.0	88.0
	China	USD / CNY	7.17	7.20	7.20

Source: BNP Paribas, Refinitiv Datastream. As at 30 June 2025

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