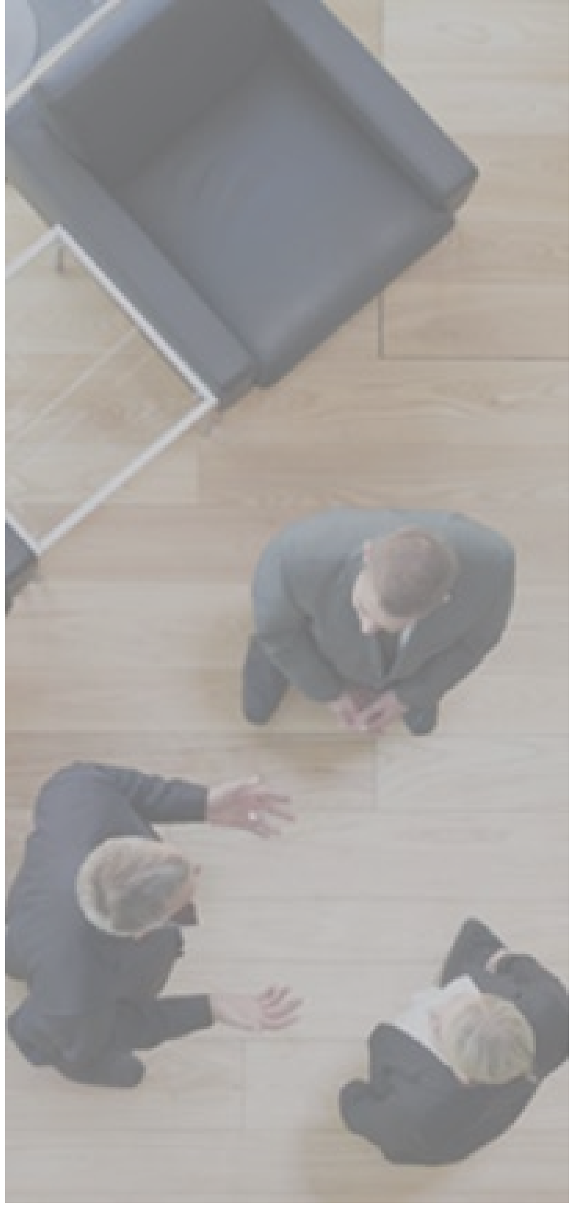
C.I.A. NETWORK

Asset Strategy in Brief

February 2025

BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world



Summary

01

Macro and market views

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Macro and Market Views

Macro			- The US grew at a 2.3% annualised GDP growth in Q4 2024, helped by a strong consumer. The manufacturing sector remains the weak point. - In the eurozone, consumer confidence remains on an upward trend. The main worry is the manufacturing sector. The service sector is holding up somewhat better. China and global trade could bring positive surprises.
Rates	=		- After a sharp rally in US bond yields, slowing economic momentum suggests that yields may ease in the months ahead. US TIPS are attractive, as are longer-duration US and UK sovereign bonds.. - US and Euro central banks to cut benchmark rates to 4%, 2% by September 2025 - We see both the US 2-year and 10-year yields at 4.25% in 12 months. We keep our 12-month target on the German bund yield at 2.25%.
Credit	+		- We stay Positive given strong technicals, high carry and low volatility. - We prefer maturities of up to 10 years in the eurozone and we increase our maturity preference up to 7 years in the US. - We continue to like EUR and USD IG corporate bonds, and we turn Positive on UK IG corporates.
Equities	+		- The key risks are that the market starts to reprice growth fears with central banks being perceived as "behind the curve". - Favour US, UK, Japan. In Asia prefer Singapore, South Korea, Indonesia. - We like mid-/small-caps. Positive on Health Care, Industrials and Materials such as Metals. We also like Financials and REITs. - We prefer investment themes like clean water, copper miners, electricity infrastructure, the circular economy, and deep value markets. - We upgrade Consumer Products & Services in Europe to Neutral
Real Estate	=		- Lagged impact from higher interest rates to fade after stability in commercial real estate returns in Q2/Q3 2024. We see European real estate prices slowly stabilising, with rental yields now more attractive. - Industrial/logistics exposure preferred for healthy yields, higher expected rental growth on robust underlying demand growth. - Listed REIT exposure preferred given low price/book values, 4%+ dividend yield
Commodities	+		- Gold: Positive view as EM central banks should continue strategic purchases and Asian households remain buyers. Gold 12m target remains USD 3000/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			- EUR/USD: we have changed our 3-month target to 1 and maintain our 12-month target at 1.02 (value of one EUR). - USD/CAD: we have changed our 3-month target for the CAD to 1.45 and our 12-month forecast to 1.40 (value of one USD).

Asset Allocation

Allocation changes this month:

- **<u>Equities:</u> We upgrade Consumer Products & Services in Europe to Neutral.**

- **<u>Bonds</u>**: We expect two 25bp rate cuts in the US this year, thus a terminal rate of 4%. In the eurozone, we anticipate three 25bp rate cuts and a terminal rate of 2%. **This month, we turn Positive on long-term US government bonds, US inflation-linked bonds and UK bonds (government and IG corporates).**

- **<u>FX</u>: EUR/USD: our 3-month target is 1 and our 12-month target is 1.02 (value of one EUR). USD/CAD: 3-month target is 1.45 and 12-month target is 1.40 (value of one USD).**

- **<u>Commodities:</u> We maintain our Positive stance on Gold with a target of USD 3000/oz end 2025. For oil, we remain Negative, with a target range of USD 60-70.**

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		
	2024e	2025e	2024e	2025e		Now	3M	12M		Now	12M
US	2.8	2.3	2.9	3.0	US Fed Funds Rate	4.50	4.50	4.00	US 10Y yield %	4.55	4.25
Eurozone	0.7	1.0	2.4	2.1	ECB Deposit Rate	2.75	2.50	2.00	Euro 10Y yield %	2.46	2.25
Japan	-0.2	0.6	2.7	3.1	Bank of Japan Policy Rate	0.50	0.75	1.00	UK 10Y Yield %	4.54	4.00
UK	0.8	1.1	2.5	3.1	Bank of England Base Rate	4.75	4.50	3.75	S&P 500	6040	n/a
China	5.0	4.5	0.2	0.8	China MLF 1Y Interest Rate	2.00	1.40	1.10	Euro STOXX 50	5203	n/a
									Oil Brent USD/bbl	76.78	60-70
									Gold USD/oz	2810	3000

Source: BNP Paribas WM. As at 03 February 2025

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Bonds

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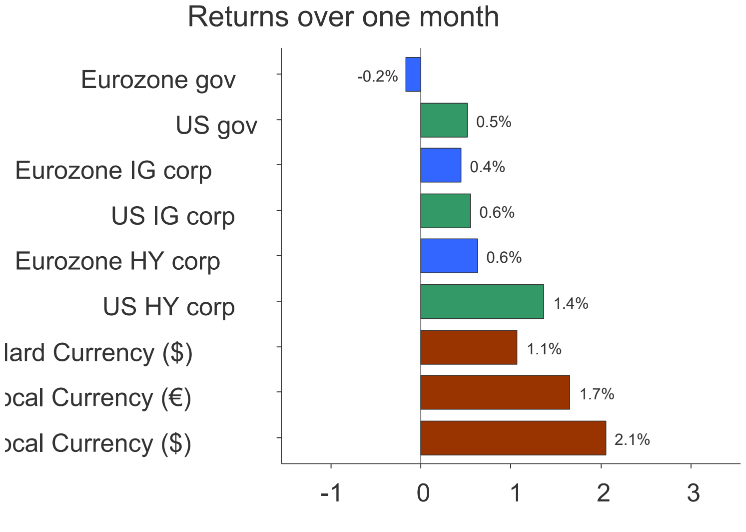
Fixed Income at a glance

2025 started with a deluge of bond issuance in developed markets. New issues have been easily absorbed by the markets, showing that there is a lot of cash on the sidelines.

This month, we took advantage of the recent bond sell-off and high term premia to i) turn Positive on US government bonds; ii) modestly increase maturities in the US; iii) turn Positive on US inflation-linked bonds and iv) turn Positive on UK bonds (government and IG corporates).

We continue to like EUR and USD IG corporate bonds.

10-year yield	03/02/2025	12-month target
US	4.50	4.25
Germany	2.38	2.25
UK	4.46	4.00



Source: LSEG Datastream, Bloomberg and JPM indices, 31/01/2025

Central Banks

We expect two 25bp rate cuts in the US this year, slightly more than the market is pricing, thus a terminal rate of 4%. In the eurozone, we anticipate three 25bp rate cuts and a terminal rate of 2%, which is similar to what the market is pricing.

Government Bonds

We take advantage of the recent sell-off to turn Positive on US and UK government bonds, and to increase duration to benchmark in the US (6 years). We also turn Positive on US inflation-linked bonds. We stay Neutral on German government bonds due to less attractive expected returns.

Peripheral bonds

The latest bond sales attracted very high demand from investors, a sign that there are still a lot of cash ready to be deployed. Peripheral bonds have become expensive, and we hold a Neutral view.

Corporate Investment Grade (IG) Bonds

We stay Positive given the strong technicals, high carry and low volatility. **We prefer maturities up to 10 years in the eurozone and we increase our maturity preference up to 7 years in the US.**

Corporate High Yield (HY) Bonds

The average spread is low and is limiting spread compression upside. However, the asset class has remained supported by high carry and solid demand. Dispersion should increase, making credit selection key.

Emerging Market (EM) Bonds

We expect a moderate easing from EM central banks this year and next. We think the risks on global trades have risen and the dollar has potential to strengthen. Both are headwinds for EM. Our Neutral view is supported by high EM real yields.

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Currencies

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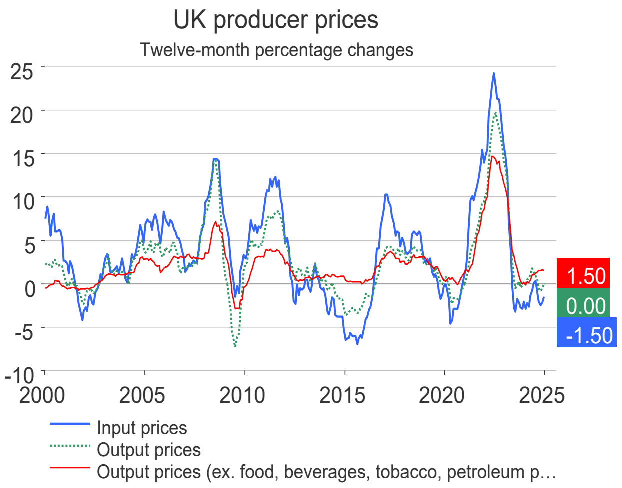
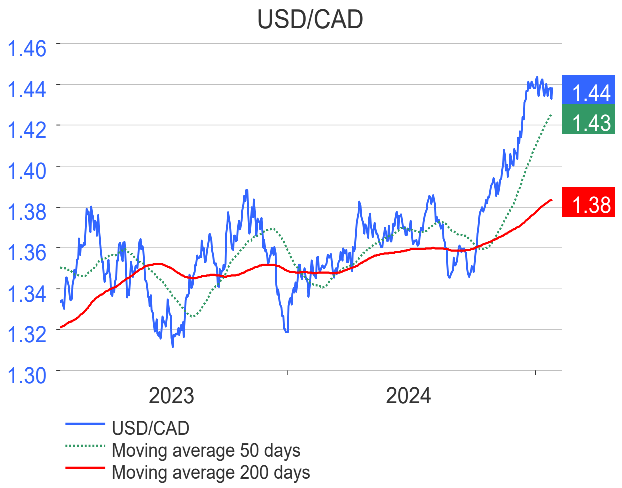
Currencies at a glance

1. **EUR/USD:** We expect two 25bp rate cuts in the US this year, slightly more than the market was pricing, with a terminal rate of 4%. In the eurozone, we anticipate three 25bp rate cuts and a terminal rate of 2%. **We expect further strengthening of the dollar and possibly a retest of the parity. We changed our 3-month target to 1 and maintain our 12-month target at 1.02 (value of one EUR).**
2. **USD/CAD:** the uncertainty surrounding US tariffs is weighing. This leaves the CAD vulnerable. However, the change in government may offer some support for the CAD. **Given these factors, we changed our 3-month target for the CAD to 1.45 and our 12-month forecast to 1.40 (value of one USD).**



Source: LSEG Datastream, Dec 24



Source: LSEG Datastream, 27/01/2025

>> TARGET 12M EUR/CHF: 0.94

The central bank delivered an unexpectedly large 50bp cut in December, bringing the policy rate to 0.5%. The policy, alongside an improving economic outlook relative to the eurozone with a wide current account surplus suggests little depreciation potential for the CHF. We **maintain our EUR/CHF 3- and 12-month target at 0.94 (value of one EUR).**

>> TARGET 12M USD/JPY: 150

The BoJ raised the policy rate by 25bps to 0.50% in January. We expect two more hikes this year and another two in 2026 with a terminal rate of 1.50%. The JPY should be less impacted by trade policies than other currencies. There is limited upside for the Yen given the US terminal rate assumption. **Our USD/JPY 3- and 12-month target is 150 (value of one USD). This suggests a moderate upside for the JPY.**

>> TARGET 12M USD/CNY: 7.40

The central bank left the policy rate unchanged in January. 1Y & 5Y LPR stayed at 3.1% and 3.6%, respectively. The US tariff policy is the key risk. Moreover, the central bank let the USD/CNY fixing higher. The move is consistent with our view that US tariffs on China could lead to more FX adjustments. **Our 3- and 12-month target is 7.40 (value of one USD).**

>> TARGET 12M EUR/GBP: 0.83

The BoE left the policy rate unchanged at 4.75% in December. We expect the UK and the GBP to be relatively less affected by US tariffs. The interest rate differential thus continues to be a source of support for the GBP. We therefore continue to see the potential for the GBP to remain strong against the euro. **Our 3- and 12-month target remains at 0.83 (value of one EUR).**

>> TARGET 12M EUR/SEK: 11.70

The Riksbank delivered a 25bp cut to 2.25% in January. Sweden is vulnerable to US tariffs. Lower inflation could make the Riksbank more favorable to a weak currency to support Swedish exporters. **Our EUR/SEK 3-month target is 11.60 and our 12-month target is 11.70 (value of one EUR). This suggests a moderate downside for the SEK.**

>> TARGET 12M USD/BRL: 5.80

The central bank raised its policy rate by 100bp, bringing the Selic rate to 12.25% in December. We expect a weakening economy, higher inflation expectations, a potential impact of US tariffs and interest rates to continue rising significantly. **Our USD/BRL 3- and 12-month target is 5.80 (value of one USD).**

Forex at a glance

FX FORECASTS EUR

	Country		Spot 02/02/2025	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1.04	Positive	1.00	Neutral	1.02
	United Kingdom	EUR / GBP	0.84	Neutral	0.83	Neutral	0.83
	Japan	EUR / JPY	160.97	Positive	150	Positive	153
	Switzerland	EUR / CHF	0.94	Neutral	0.94	Neutral	0.94
	Australia	EUR / AUD	1.67	Positive	1.52	Positive	1.59
	New-Zealand	EUR / NZD	1.84	Positive	1.67	Positive	1.70
	Canada	EUR / CAD	1.51	Positive	1.45	Positive	1.43
	Sweden	EUR / SEK	11.50	Neutral	11.60	Neutral	11.70
	Norway	EUR / NOK	11.75	Neutral	11.60	Positive	11.30
Asia	China	EUR / CNY	7.55	Positive	7.40	Neutral	7.55
	India	EUR / INR	90.04	Positive	84.00	Positive	85.68
Latam	Brazil	EUR / BRL	6.07	Positive	5.80	Positive	5.92
	Mexico	EUR / MXN	21.46	Positive	21.00	Negative	22.44

Sources: BNP Paribas, LSEG

FX FORECASTS USD

	Country		Spot 02/02/2025	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1.04	Negative	1.00	Neutral	1.02
	United Kingdom	GBP / USD	1.24	Negative	1.20	Neutral	1.23
	Japan	USD / JPY	154.85	Positive	150.00	Positive	150.00
	Switzerland	USD / CHF	0.91	Negative	0.94	Neutral	0.92
	Australia	AUD / USD	0.62	Positive	0.66	Positive	0.64
	New-Zealand	NZD / USD	0.57	Positive	0.60	Positive	0.60
	Canada	USD / CAD	1.45	Neutral	1.45	Positive	1.40
Asia	China	USD / CNY	7.26	Neutral	7.40	Neutral	7.40
	India	USD / INR	86.62	Positive	84.00	Positive	84.00
Latam	Brazil	USD / BRL	5.84	Neutral	5.80	Neutral	5.80
	Mexico	USD / MXN	20.64	Neutral	21.00	Negative	22.00
EMEA	South Africa	USD / ZAR	18.67	Positive	18.00	Positive	17.50
	USD Index	DXY	108.37	Positive	110.91	Neutral	108.91

Sources: BNP Paribas, LSEG

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Equities

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This is (not) the end of the world as we know it

Is the AI trade in deep(seek) trouble?

- **Disrupting the disrupters? –** As we argued before, the market over-focused on the originators, understated the impact of competition and overstated the returns on capital invested by the early innovators. The launch of DeepSeek's v3, which was trained on a $6m budget, has dealt a blow to this view. Given its competitive performance compared to much more expensive large language models (LLM), expected growth and profitability rates for the entire US AI ecosystem have been put into question.
- **This is not another sputnik event –** While DeepSeek's achievement is remarkable in respect to efficiency gains, it's worth keeping in mind that this success is based on larger (and more powerful) models acting as a "trainer". In that sense, the launch may indeed pose a threat to the business model of closed-end LLM providers. But it does by no means constitute a fundamental challenge to the broader AI investment case.
- **Jevons paradox –** While we see DeepSeek as evidence to our view that profitability expectations for certain hyperscalers may be too optimistic, it is likely to become a net positive for the AI ecosystem. On the one hand, it forces closed-end LLM providers to move even faster with innovation and newer models while the general availability of cheaper models should boost the overall usage of AI as the return on investment for adopters rise. Such increased penetration should boost the demand for AI infrastructure.

Main recommendations

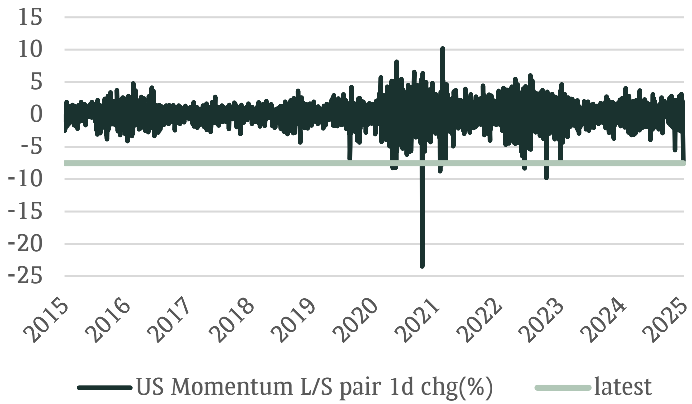
Take advantage in the recent AI weakness – We continue to see value in the AI ecosystem. The recent correction deflated some lofty valuations, allowing for selective bargain hunting

Diversify away from US Mega Caps – as the recent market rout has shown, taking too much concentration risk, especially in overpriced mega cap tech names – is posing a risk for portfolios. Diversify in more attractive pockets of the market such as AI adopters or US SMIDs. Interesting opportunities can also be found in Japan and (selectively) in Europe.

Back in fashion – upgrading Consumer Products & Services in Europe to Neutral: Consumption is strong, especially in the US but also in Europe with improving results and outlooks in the Consumer Discretionary sector. We would wait for a more convincing economic recovery in China before turning straight positive.

The key risks is that the market starts to reprice growth fears with central banks being perceived as "behind the curve". Increasing policy uncertainty around tariffs could weigh on sentiment, too.

US MOMENTUM TOOK A HARD HIT FROM DEEPSEEK



SOME (SHORT TERM) WEAKNESS AHEAD?

	Conditional of being down -7% in a day		
Momentum	+1d	+5d	+10d
% of Returns Positive	29%	38%	32%
Average Return	-1.8%	-1.4%	-4.6%
Median Return	-1.9%	-1.8%	-4.9%

Source: BNP Paribas, Bloomberg

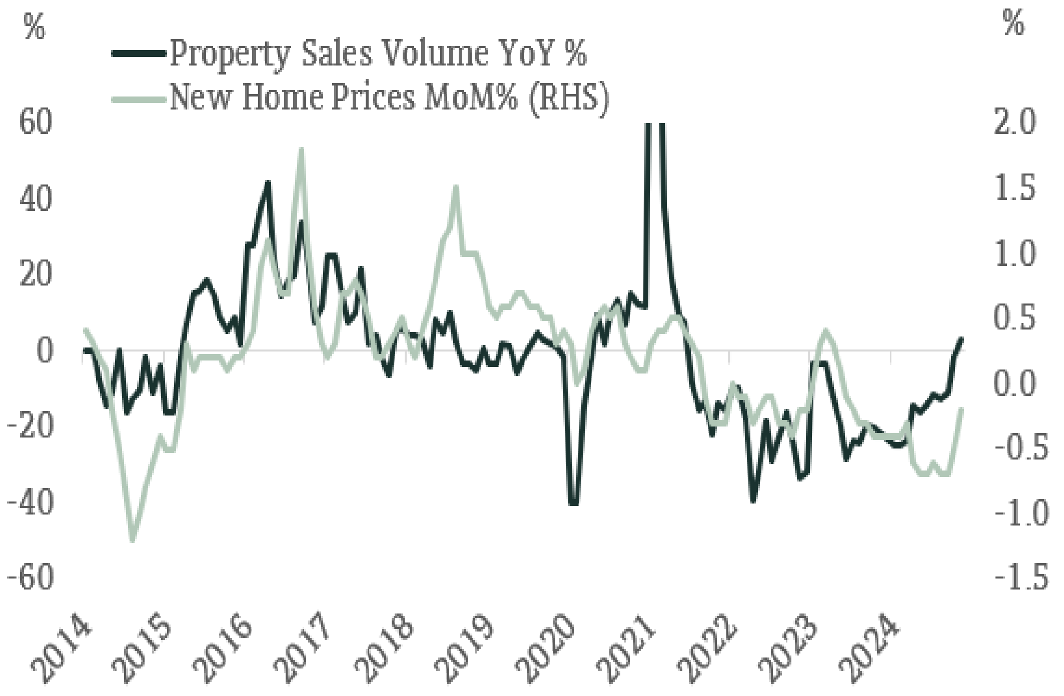
Asian Equities view

ASIA COUNTRY PREFERENCE

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

- **China** – We remain cautiously optimistic in the medium term: (1) The innovation in AI via DeepSeek illustrates the potential in China technology. (2) Future tariffs by the US could lead to more stimulus from the China government. Ultimately, the property market is much more important to GDP than tariffs unless we get an extreme outcome. (3) We prefer A-shares to offshore Chinese equities amid ongoing corporate governance reforms and the swap facility that improves market liquidity and encourages inflows.
- **India** – The equity correction continued in January, especially small and midcaps which had become overheated. Earnings revisions remain a headwind. While we remain Neutral due to valuations, further pullbacks could create buying opportunities. India is relatively insulated to tariffs. The other risk factor to watch is any move in commodity prices or a stronger dollar.

Chinese property sales are experiencing a bounce sustained bottoming requires further stimulus



Source: Deutsche Bank, NBS, as of 31 December 2024

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Commodities

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Commodities at a glance

Base metals are slightly up y-t-d, mainly thanks to some hope for less severe US trade tariffs on China, resulting in improving economic prospects. There have also been some supply cuts in copper, lithium, palladium (due to loo low prices.

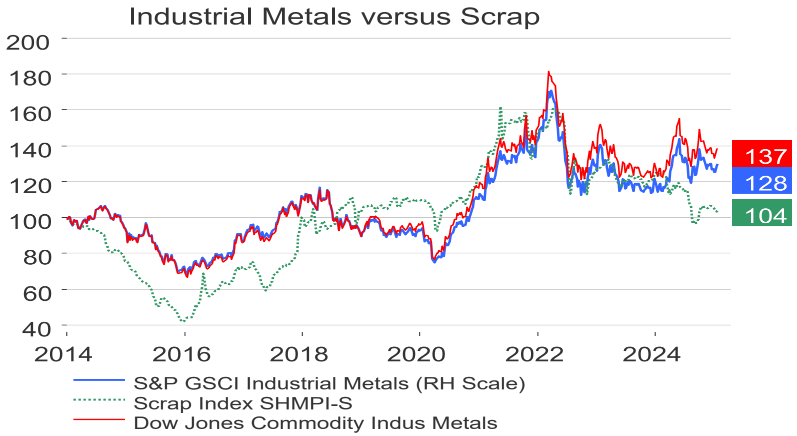
While iron ore is down y-t-d (due to overcapacity) most non-ferrous metals post slight gains y-t-d (+3%).

The Brent price strongly rebounded to USD 82 in the first half of January due to the cold spell and stricter export sanctions on Russia. It corrected again as Trump is talking down oil price, with his “drill, baby, drill” policy and his appeal to OPEC+ to increase production to bring down oil prices. **We remain negative, with a target range of USD 60-70 in 12 months.**

Gold almost fully recovered from its November correction, recently supported by some correction in USD and bond yields, geopolitical risks and ongoing buying by central banks. **We maintain our 12 months target of USD 3000/oz.**

BASE METALS

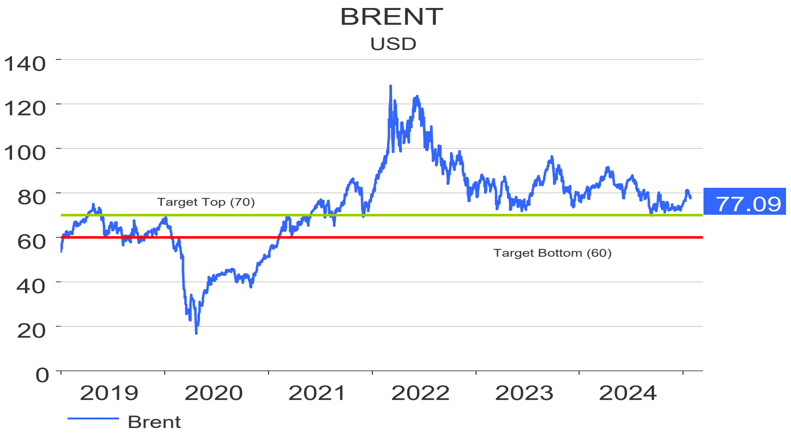
Short term, commodity prices are mainly driven by expectations about trade tariffs (negative) and Chinese stimulus (positive). We remain positive for next years in view of growing demand for energy transition and infrastructure, outpacing expected supply growth.



Source: LSEG Datastream, 27/01/2025

OIL

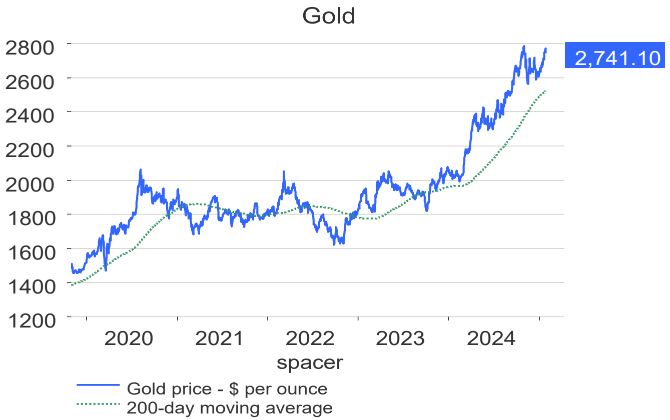
We remain Negative, with a target range of USD 60-70 in 12 months. Downside risks persist in view of Trump's policy favouring lower oil prices, weak demand growth, substantial non-OPEC supply growth and the intention of OPEC+ to gradually increase its production again from April 2025.



Source: LSEG Datastream, 27/01/2025

GOLD

We expect the upward trend to continue, with major support from the rate-cutting cycle of central banks and a further accumulation of gold reserves, combined with Trump's inflationary policy, a possible trade war and concerns about high US budget deficits and government debt. <u>12-month target of USD 3000/oz.</u>



Source: LSEG Datastream, 27/01/2025

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Alternative Investments

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Alternative Investments at a glance

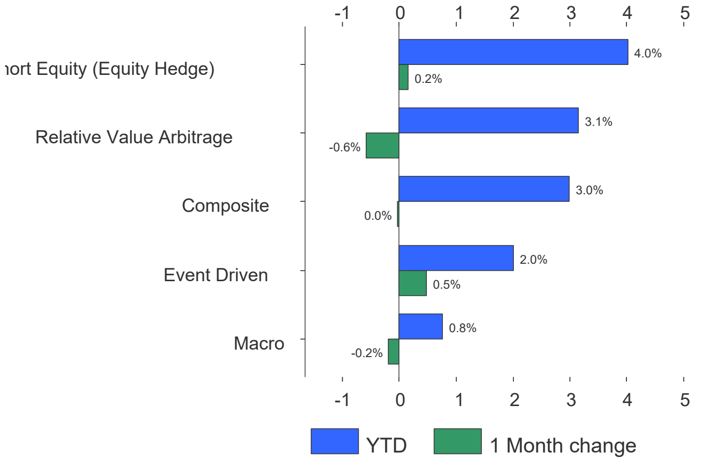
Performances were positive over 2024, especially for long-short equity and macro.

The past month was still positive with long-short equity still outperforming.

Positive opinion on Event Driven, Long/Short Equity and Relative Value.

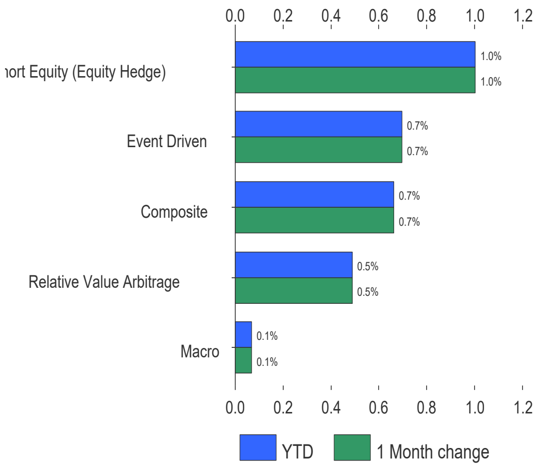
Alternative UCITS (HFRU index)

Performance 2024



Source: LSEG Datastream, 31/12/2024

Alternative UCITS (HFRU index)



Source: LSEG Datastream, 24/01/2025

Global Macro

Neutral: Markets are now contending with the upcoming potentially radical decisions of the new Trump administration. No matter the outcomes, macro managers will be able to adjust to new situations faster, and hopefully even profit from them, whether bullish or bearish. In light of this, directional bets remain more challenging than Relative Value trades.

Event Driven

Positive: Following the Trump victory, Goldman Sachs projected a 20% increase in M&A activity in 2025. With spreads still at fairly elevated levels following a challenging year 2024. This year should provide a quite favourable backdrop to M&A arbitrage. Regulatory deal blocking is likely to decrease with the Trump appointments in the US Agencies, even if some specific deals may be blocked for geopolitical reasons.

Long/Short Equity

Positive: Intra-market equity dispersion is back to historically high levels, with a very wide gap between expensive and cheap stocks, paving the way for better long and short stock-picking opportunities. Market breadth has improved recently after historical outperformance concentrated in the "magnificent seven".

Relative Value

Positive: For credit markets, a combination of resilient growth, moderating inflation and stable to lower policy rates remain supportive. Nonetheless, the challenge to additional Fed cuts with Trump's programme, and potentially disappointing macro data could bring volatility in credit markets. Credit dispersion may increase further as high yield companies react to a higher rate environment and the "maturity wall" remains high in 2025.

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