MARCH 2025

Investment Navigator
Asia Edition

This edition of the Investment Navigator for March 2025 focuses on two topics. The first one is on China and we try to answer the question whether there is still room for further rally in Chinese equities. The second one is on our high conviction on the US and EU financial sector.

Can the Chinese Rally continue?

China

China has set an ambitious growth target of around 5% for 2025, despite challenges like deflationary pressures, weak domestic demand, and a property slump. The government plans to issue substantial treasury bonds and local government special-purpose bonds to boost spending and support AI models and venture capital investment.

US & EU Earnings Season: Financials Shine

United States

In the US, companies have reported impressive earnings growth, with large banks performing exceptionally well and investment banking showing signs of recovery.

Europe

European banks and financials in general also demonstrate strong earnings growth and cash returns, with valuations remaining historically cheap.

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Can the Chinese Rally Continue?

WHAT IS THE MAIN TAKEAWAY FROM THE FIRST DAY OF CHINA'S NPC MEETING?

> As US President Trump pursues protectionism, China vows to spend more and open to the world.

At the latest annual meeting of the National People's Congress (NPC), China set a bullish economic growth target of around 5% for 2025, despite a recent escalation in its trade war with the US. Chinese Premier Li Qiang pledged more aggressive spending to drive growth after acknowledging domestic challenges (deflationary pressures, weak domestic demand and a lingering property slump). To shore up growth, the deficit-to-GDP ratio for 2025 has been set at around 4%, an increase of 1% over last year.

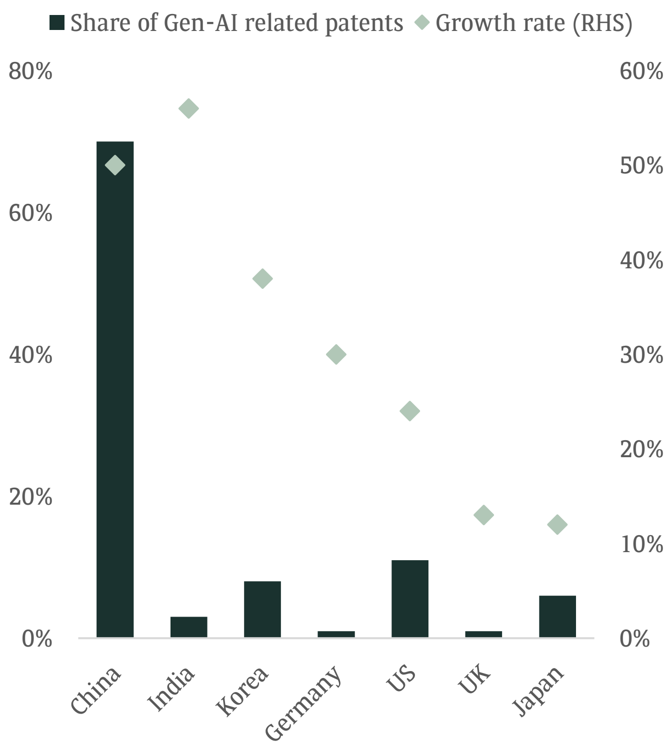
Additionally, China will issue 1.3 trillion yuan in ultra-long special treasury bonds, and 4.4 trillion yuan in local government special-purpose bonds (up 300 billion yuan and 500 billion yuan respectively from 2024) to enable more spending.

2025 Economic Growth Target	2025 Deficit-to-GDP Target	Ultra-long Special Treasury Bonds	Local Government Special-purpose Bonds
~5%	~4%	1.3 trillion yuan	4.4 trillion yuan
	(↑ 1% YoY)	*(↑ 300 billion yuan YoY)*	*(↑ 500 billion yuan YoY)*

IS THE CHINESE TECH SPACE OVERCROWDED? ARE WE STILL POSITIVE?

At the annual meeting of the NPC, China also said that it would boost support for the application of artificial intelligence (AI) models and the development of venture capital investment, in a bid to foster more technology breakthroughs and become more self-reliant. It was the first time AI models were mentioned in the work report and comes after the recent global fanfare over Chinese AI startup DeepSeek. This reinforces our view that Chinese Tech companies offer great value.

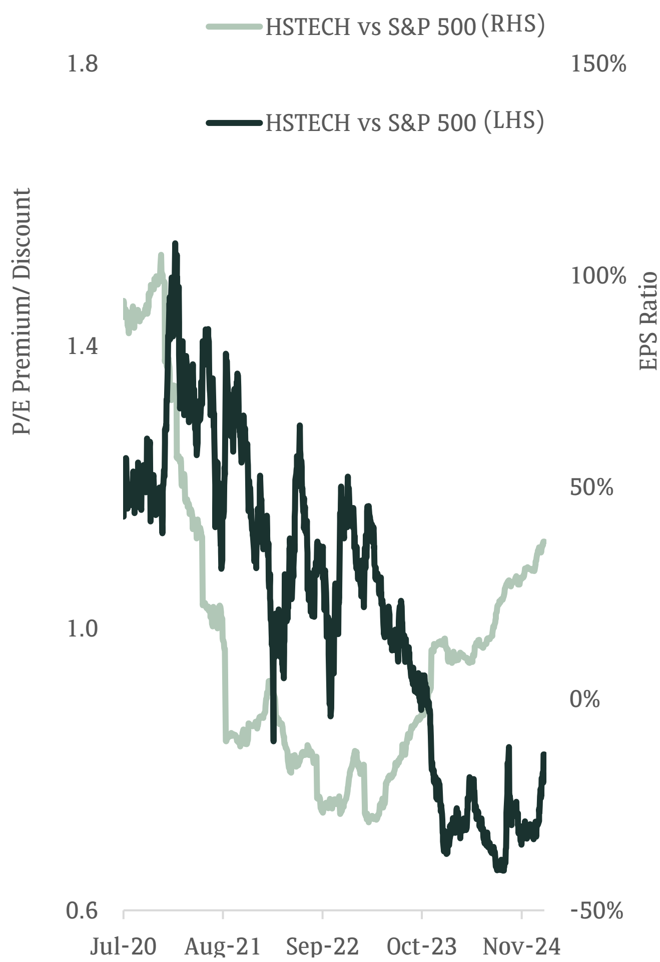
FIGURE 1. SHARE OF GEN-AI RELATED PATENT



Source: Bloomberg, BNP Paribas WM, as of 31 January 2025
Past performance is not indicative of current or future performance

Another key point to note is that China has the largest share of all Gen-AI related patents published globally and is still growing at the rate of 50% per year (see Figure 1). This clearly shows their ambition in leap-frogging the nation to the forefront of the AI race.

FIGURE 2. HSTECH VS S&P 500 PE & EPS



Source: Bloomberg, BNP Paribas WM, as of 28 February 2025
Past performance is not indicative of current or future performance

We expect the market to increasingly focus on AI-enabled revenues. Therefore, we may continue to see rotation out of Magnificent 7 as investors question the return on investment (ROI) amid their massive AI capex. Valuation wise, China Tech still offers a significant discount to the US despite an outperformance of EPS growth (see Figure 2). Near term, the HSTech is tactically overbought, and any weakness represents opportunity for entry.

US & EU Earnings Season: Financials Shine

HOW IS THE US EARNINGS SEASON? WHY DO WE STILL LIKE US FINANCIALS?

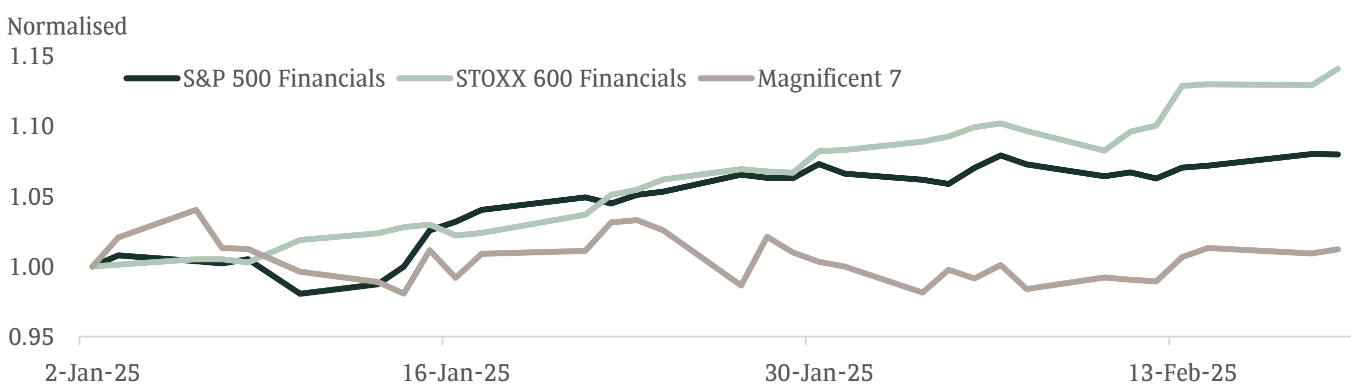
US companies have announced an average earnings growth of +14.2% so far, quite better than the +8% that most were expecting in early January. +12% is expected for the full year 2025.

Results from US large banks were excellent. Most were generally way above expectations, which was also evident from their key businesses. Importantly, investment banking business was somewhat sluggish until recently, where a recovery is now confirmed and probably yet to be fully priced in. In fact, this kick started the broadening of the US market, with the financial sector outperforming the Magnificent 7 stocks (see Figure 3).

Accordingly, US banks are not that cheap, but a sound growth is expected in 2025 especially with Trump's potential deregulation policies. A solid economy should help keep defaults in check, while the bi-product of higher rates for longer could provide additional tailwinds. Therefore, we estimate there is still potential at the US main banks.

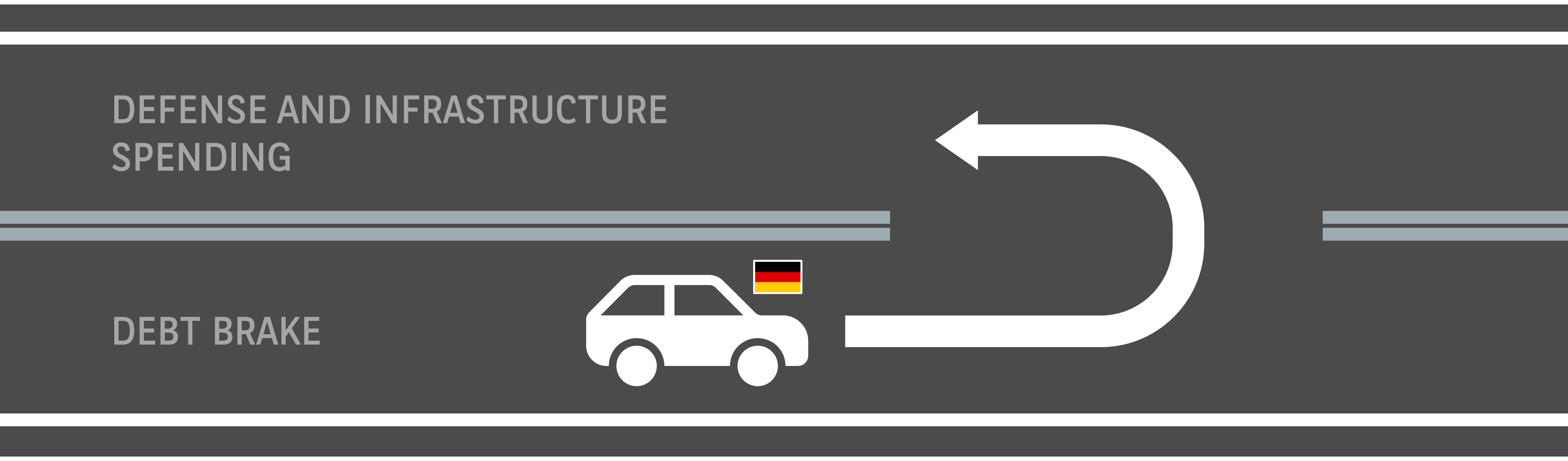
Other financials are also in good shape. There are some concerns over insurers due to the fires in California, but related claims seem manageable. US private insurers'' exposure to California had significantly decreased, and they are often reinsured for this type of cataclysm.

FIGURE 3. FINANCIALS OUTPERFORMING MAG-7



Source: Bloomberg, BNP Paribas WM, as of 28 February 2025
Past performance is not indicative of current or future performance

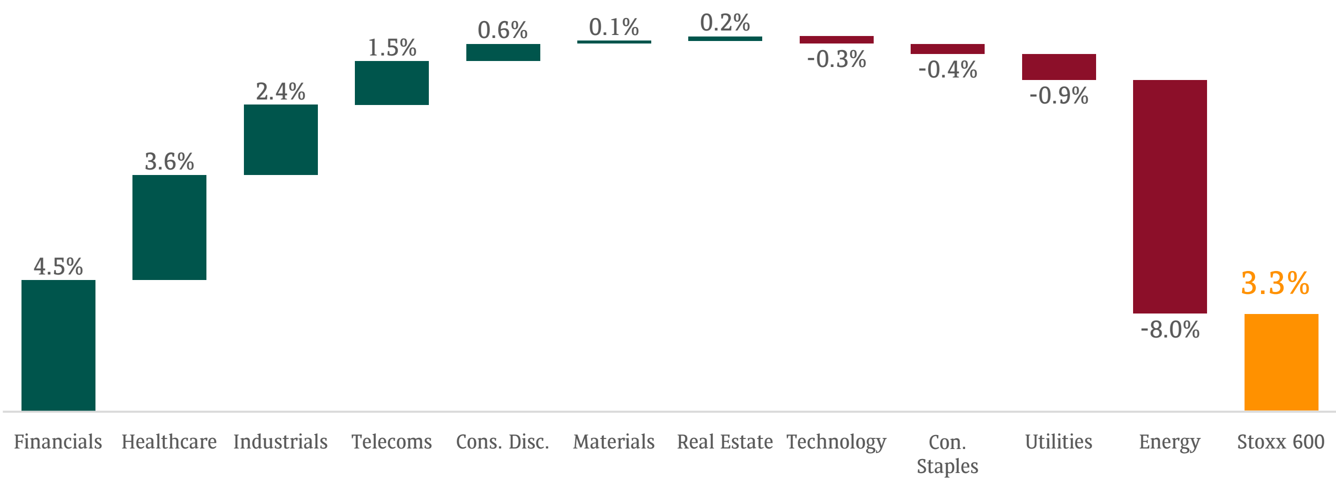
GERMANY'S FISCAL U-TURN COULD BE A "GAME-CHANGER". DO WE STILL FAVOUR EU FINANCIALS?



Germany proposed an unprecedented loosening of its "debt brake" rule to boost defense and infrastructure spending could be a "game-changer" for the sluggish economy. 4Q 2024 earnings results are modest. Nonetheless, they were still encouraging, with the highest contribution to earnings coming from one of our favourite sectors, financials (see Figure 4).

We continue to like European Banks and Financials in general. **Earnings growth and cash returns have been sizeable and should likely continue in 2025** with many guidance upgrades. Additionally, valuations remain extremely cheap on a historic basis and relative to the rest of the market. The environment is still favourable for European Financials although they are facing more and more competition from their US counterparts. Some M&As and restructuring could also bring further support.

FIGURE 4. CONTRIBUTIONS TO STOXX 600 ACTUAL Q4'24 GROWTH



Source: BofA, Factset, as of 28 February 2025
Past performance is not indicative of current or future performance

Overview of our CIO Asset Allocation for March 2025

	Views Current	Views Prior	Constituents	We like	Comments
EQUITIES	+	+	Markets	UK, Japan, Brazil, China, South Korea, Singapore & Indonesia	■ We **downgrade US to neutral**
			Sectors	Financials, Materials, Industrials, Healthcare	■ We **downgrade US tech and consumer discretionary to negative**
			Styles/ Themes	Megatrend Themes	■ Circular economy, electrification, security & income themes
BONDS	=	=	Govies	Eurozone, UK	■ We **turn neutral on US Treasuries.** Our 12-month target for US 10-year Treasury yield remains at 4.25% ■ We **upgrade German bunds to positive.** Our **12-month target for German 10-year bund yield is revised up to 2.5%**
	+	+	Segments	EUR and GBP Investment grade	■ We **tactically turn neutral on US and continue to like EUR and GBP investment grade corporate bonds.** ■ We are neutral on High Yield and EM bonds (USD+local currency)
CASH	-	-			
COMMO-DITIES	+	+		Gold Base metals	■ **Gold – Positive with an upgraded 12-month target of $3200/oz** ■ Oil – Negative with Brent's target range to $60-70 ■ Base metals – **Positive esp copper**
FOREX			USDJPY		■ 12-month target at 150
			EURUSD		■ 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	2.9	2.8	2.3	4.1	2.9	3.4
	Japan	1.5	0.1	1.1	3.3	2.7	3.2
	Eurozone	0.5	0.7	1.1	5.4	2.4	2.1
	UK	0.4	0.9	0.8	7.3	2.5	3.3
North Asia	China	5.2	5.0	4.5	0.2	0.2	0.8
	Hong Kong*	3.2	3.2	3.0	2.1	1.7	2.3
	South Korea	1.4	2.2	1.6	3.6	2.3	2.2
	Taiwan	1.3	4.4	2.4	2.4	2.2	1.9
South Asia	India	7.0	8.2	6.2	6.7	5.4	4.8
	Indonesia	5.1	5.0	5.0	3.7	2.4	2.3
	Malaysia	3.6	5.5	4.6	2.5	1.9	2.3
	Philippines*	5.6	5.8	6.1	6.0	3.3	3.0
	Singapore	1.1	4.0	2.4	4.2	2.8	1.7
	Thailand	1.9	2.8	2.7	1.3	0.4	1.3

Source: BNP Paribas Group Economic Research, BNP Paribas Global Markets forecasts as of 11 March 2025
** IMF data and forecasts as of 11 March 2025*

GROWTH

- Pending macroeconomic impacts from tariffs look larger than we had expected. The situation remains fluid. Much will depend on whether these new tariffs prove temporary or are toned down. But even if they are ultimately removed, we anticipate lasting damage to global economic activity.

- We expect the combination of the EU's ReArm Europe plan, Germany's EUR500bn infrastructure investment fund and the tweak to its debt brake to have a significant positive long-term impact on both growth and inflation in Eurozone. We upgraded our 2025 Eurozone GDP growth forecast from 0.9% to 1.1%.

INFLATION

- The current tariffs as they stand suggest a bigger and more front-loaded impact on inflation whether the tariffs are permanent or temporary. Our modelling suggests that a permanent and a temporary increase in tariff rates could lift the level of US consumer prices by around 3pp and around 1.2pp by end-2026, respectively.

Equities

POSITIVE · NEUTRAL · NEGATIVE

OVERALL GLOBAL: POSITIVE		
Positive	Neutral	Negative
COUNTRY		
UK Japan Emerging Mkt	▼ US 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

- **Germany's "whatever it takes" moment:** The EU easing fiscal rules to finance deficit spending, potential Russia-Ukraine ceasefire, the ECB's easing policy, plus relatively low PE multiples, could see more outperformance in European equities in the medium term.
- **American exceptionalism narrative is challenged:** The Magnificent 7 tech stocks have reversed given record US policy uncertainty, slowing growth and stretched valuations. We **downgrade US to Neutral but maintain a positive stance on equities overall.**
- We continue to **like US financials, healthcare and industrials,** while **tactically downgrade US tech and consumer discretionary to negative.**
- **China techs:** The sector offers access to fast growing AI champions at a meaningful discount. We would add positions in any signs of weakness.

		1-month (%)	YTD (%)	2024 (%)	Forward PE (x)	Trailing PB (x)	Dividend Yield (%) 2025f	EPS Growth (%) 2025f	EPS Growth (%) 2026f	ROE (%) 2025f
Developed	US	-1.7	1.2	23.4	22.0	5.0	1.5	11.9	14.5	19.1
	Japan	-4.0	-4.0	18.5	14.0	1.5	2.2	8.3	8.5	9.1
	Eurozone	3.4	10.8	6.8	14.2	1.9	3.0	7.2	11.7	13.2
	UK	1.7	7.8	5.3	12.1	1.9	3.6	5.9	10.5	13.9
	Asia Ex-Japan	1.0	1.6	9.8	13.1	1.8	2.5	11.8	13.3	11.8
North Asia	China	11.6	12.4	16.3	11.3	1.5	2.6	8.7	11.9	11.8
	China A-shares	1.9	-1.1	14.7	11.9	1.7	3.1	8.7	9.1	10.7
	Hong Kong	6.7	4.5	-4.7	12.1	0.9	4.1	7.1	7.9	7.1
	South Korea	0.0	4.9	-13.7	9.1	1.0	2.4	13.2	17.9	10.3
	Taiwan	-4.1	-1.2	40.9	16.1	3.1	2.3	18.8	15.7	17.4
South Asia	India	-7.2	-9.5	14.3	20.8	3.6	1.3	17.0	15.0	14.4
	Indonesia	-14.4	-14.2	-12.3	10.0	1.8	7.4	1.5	8.2	15.7
	Malaysia	0.5	-4.6	12.8	13.2	1.3	3.9	6.4	7.4	9.2
	Philippines	3.1	-6.2	1.6	9.9	1.5	2.4	8.8	10.5	13.8
	Singapore	3.0	3.9	20.0	14.2	1.8	4.7	6.4	7.1	10.8
	Thailand	-7.8	-11.9	-1.6	14.1	1.5	3.9	22.0	10.8	10.8

Source: MSCI indices in local currency terms, Bloomberg, Datastream, BNP Paribas (WM), as of 28 February 2025

Fixed Income

POSITIVE NEUTRAL NEGATIVE

OVERALL GLOBAL: NEUTRAL		
Positive	Neutral	Negative
▲ German Bunds UK Gilts EUR and GBP IG	▼ US Treasuries ▼ US IG 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 (%)			Yield-to-Worst (%)
		1-Month	YTD	2024	
Asia	Asia USD Bond	1.9	2.5	4.5	5.0
	Asia Local Currency Bond	0.6	1.4	1.0	3.9
	China	1.9	2.5	5.7	5.1
	Hong Kong	1.9	2.4	4.7	4.9
	India	1.8	2.7	7.4	5.7
	Indonesia	2.2	2.9	0.8	5.3
	Singapore	1.9	2.5	3.0	4.5
	South Korea	1.4	2.1	4.4	4.6
	Philippines	2.1	2.6	1.4	5.3
Other Regions	US 10-year Treasuries	2.4	2.9	0.1	4.3
	US Investment Grades (IG)	2.2	2.7	1.3	4.6
	US High Yield (HY)	0.7	2.0	8.2	7.1
	Emerging Market USD Bond	2.0	2.6	5.2	5.4

Source: Barclays indices, Bloomberg, BNP Paribas (WM) as of 28 February 2025

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

- **Rate forecasts**: We maintain our call for two 25bp Fed Funds rate cuts this year, thus a terminal rate of 4% by year-end. In the Eurozone, we maintain our view that the ECB will not cut rates in April, but lower rates in June and September, leaving the terminal deposit rate at 2%.
- **Govies: We turn neutral on US Treasuries** as yields have fallen sharply from 4.8% to 4.2% and a US recession is not our base case scenario. We **turn positive on German bunds** and see good opportunities in intermediate maturities (5-10 years). We **revise up 10-year bund yield target from 2.25% to 2.5%.**
- **Corporate IG**: We **tactically downgrade US IG to neutral** given the limited scope for yields to drop further and for spreads to tighter further. We **continue to like EUR and GBP IG** given their attractive yields.

Forex & Commodities

POSITIVE NEUTRAL NEGATIVE

12-MONTH FOREX VIEW: Positive	Neutral	Negative
USD NZD CAD	JPY AUD CNY KRW TWD INR IDR MYR	EUR GBP PHP SGD THB

COMMODITIES: Positive	Neutral	Negative
Gold Base metal	Oil	-

- **EUR:** The recent rise in EUR/USD is mainly related to the recent news on the European economic outlook, in particular defence/infrastructure spending and the positive news regarding the German debt brake issue. The macro momentum (economic surprise index) has been better in the Eurozone than in the US. All this news has led to a repricing of the expected Fed Funds rate. The market expects more than 3 rate cuts by year-end for the Fed. However, this reaction looks a little exaggerated. In the short term, the optimism in the Eurozone could be dampened by more negative news on US tariffs. That should help the dollar to rebound. **We maintain our 12-month target at 1.02.**

- **GOLD: We remain positive and revise up our 12-month target to $3200/oz from $3000/oz.** Prices should be supported by central bank buying and heightened geopolitical uncertainty. Any short-term correction could offer new buying opportunities.

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

- **BASE METALS: Commodity prices may see volatility short term due to trade tariffs. Nonetheless, we stay positive longer term** on growing demand for energy transition and infrastructure, particularly copper.

Forex Forecasts

		Spot As of 28 Feb 2025	3-month View	3-month Target	12-month View	12-month Target
Developed	USD Index*	107.61	+	109.1	+	108.9
	Japan	150.7	=	150	=	150
	Eurozone	1.040	=	1.04	-	1.02
	UK	1.259	-	1.23	-	1.23
	Australia	0.622	+	0.66	=	0.64
	New Zealand	0.562	+	0.60	+	0.60
	Canada	1.441	=	1.45	+	1.40
Asia Ex-Japan	China	7.283	=	7.40	=	7.40
	South Korea*	1,463	=	1,500	=	1,500
	India	87.50	=	88.0	=	88.0
	Indonesia*	16,580	=	16,400	=	16,600
	Malaysia*	4.463	=	4.54	=	4.58
	Philippines*	57.99	=	59.3	-	60.0
	Singapore*	1.349	=	1.38	-	1.40
	Thailand*	34.17	-	35.3	-	36.0

Source: BNP Paribas (WM) as of 28 February 2025
**BNP Paribas Global Markets forecast as of 28 February 2025*

Note: + Positve / = Neutral / - Negative

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