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WEALTH MANAGEMENT

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Investment Navigator
Asia Edition

US Treasuries: Should investors worry or climb the wall of worry?

This edition of the Investment Navigator for June 2025 addresses the questions regarding investor concerns over US government bonds, stemming from key factors, such as, rising fiscal deficits, potential inflation, overall demand and supply dynamics, and the asset class's safe haven status.

Key Questions

- What are the implications of recent Moody's sovereign rating downgrade?
- Are foreign investors dumping US Treasuries?
- Should investors be concerned about a potential US sovereign debt crisis?
- Are US Treasuries no longer a "safe haven"?
- Can the massive supply of US Treasuries be absorbed?

Despite the recent volatility, **US Treasuries remain the world's dominant safe haven assets amid limited viable alternatives, underpinned by the dollar's global reserve status** and the market's depth and liquidity. The risk of a US sovereign debt crisis is very low, as the **Federal Reserve can always act as a "buyer of last resort"** for US Treasuries during times of market stress.

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WHAT ARE THE IMPLICATIONS OF RECENT MOODY'S SOVEREIGN RATING DOWNGRADE?

Unlikely to see forced selling of US Treasuries

US Treasuries has not been unanimously AAA-rated since 2011, and the fiscal and structural drivers of Moody's action were well known. Most US institutional investors either limited a reliance on AAA ratings, or simply made a special carve out for US Treasuries in their internal mandates. Hence, they are insulating the risk of forced selling into another such downgrade. Furthermore, as there is a lack of comparable substitutes, international capital data shows that foreigners continued to be net buyers of US Treasuries after the last two rating downgrade events in 2011 by S&P and in 2023 by Fitch.

ARE FOREIGN INVESTORS DUMPING US TREASURIES?

No signs of significant foreign selling

Foreign investors account for 33% of outstanding US Treasuries and are roughly evenly split between foreign official and private accounts (see Figure 1). Japan is the largest foreign holder, followed by the UK and China. There is little evidence of foreign net selling of US Treasuries in recent months though general perception remains. In fact, 67% of foreign official institutions' holdings of Treasuries are in maturities 5 year or shorter. Foreign official institutions could just let their holdings run off and not reinvest, rather than sell securities outright that could incur losses.

FIGURE 1.
MAJORITY OF FOREIGN OFFICIALS' HOLDINGS OF TREASURIES ARE SHORT MATURITIES

Maturity Bucket	Total Foreign	Officials	Private
Up to 1 year	12.6	12.7	12.4
1 to 2 years	15.2	16.4	14.0
2 to 3 years	11.7	13.3	10.0
3 to 4 years	10.4	12.0	8.9
4 to 5 years	11.3	12.4	10.3
5 to 6 years	5.1	5.5	4.8
6 to 7 years	5.9	6.7	5.2
7 to 8 years	4.4	5.1	3.7
8 to 9 years	4.3	4.8	3.8
9 to 10 years	4.4	4.2	4.5
10 to 15 years	0.4	0.2	0.7
15 to 20 years	6.4	4.7	8.1
20 to 25 years	2.8	1.7	3.9
25 to 30 years	4.6	2.0	7.3
Total	100	100	98

Source: Treasury International Capital System Annual Report, JPMorgan, BNP Paribas WM, as of 31 May 2025. Note: Share of foreign holdings of Treasuries by maturity bucket as of 30 Jun 2024; overall compared with foreign official and foreign private (%).
Past performance is not indicative of current or future performance.

SHOULD INVESTORS CONCERN ABOUT A POTENTIAL US SOVEREIGN DEBT CRISIS?

The Fed is a "buyer of last resort"

US as a nation holds the majority of US Treasuries (67%) with the Fed currently owning 17%. US is also not net borrowers in foreign currencies. The risk of a US sovereign debt crisis is very low as the Fed can always act as a "buyer of last resort", meaning the central bank will purchase US Treasuries to restore market liquidity during times of stress and support the functioning of the broader financial system.

Furthermore, US regulators are reportedly preparing to make substantial cuts to bank capital requirements established after the 2008 financial crisis. This should be helpful for Treasury market liquidity in the long run.

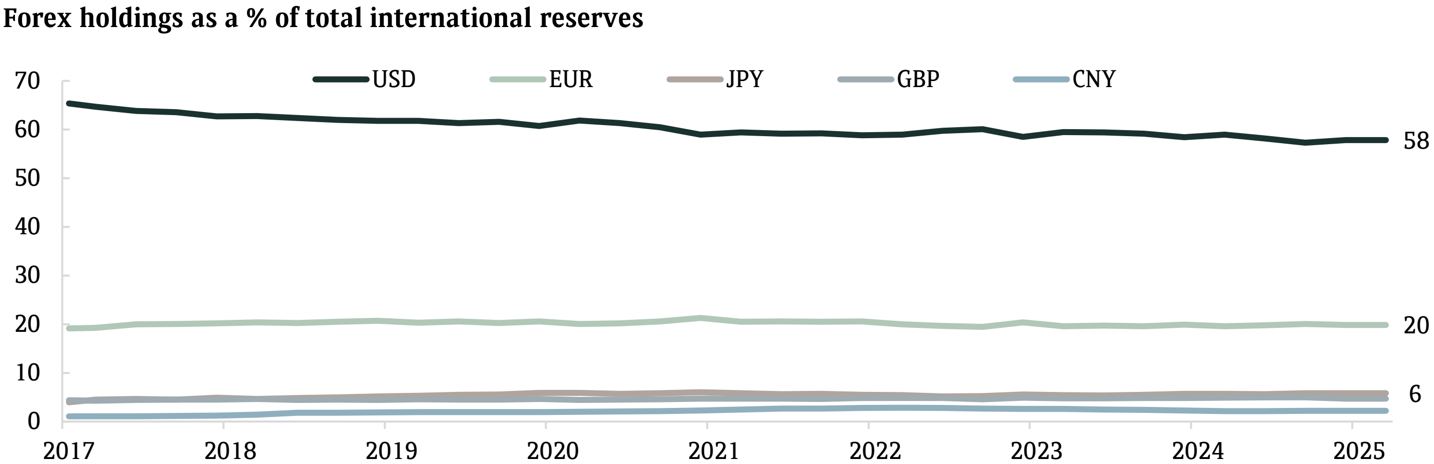
ARE US TREASURIES NO LONGER A "SAFE HAVEN"?

US Treasuries are underpinned by the dollar's global reserve status

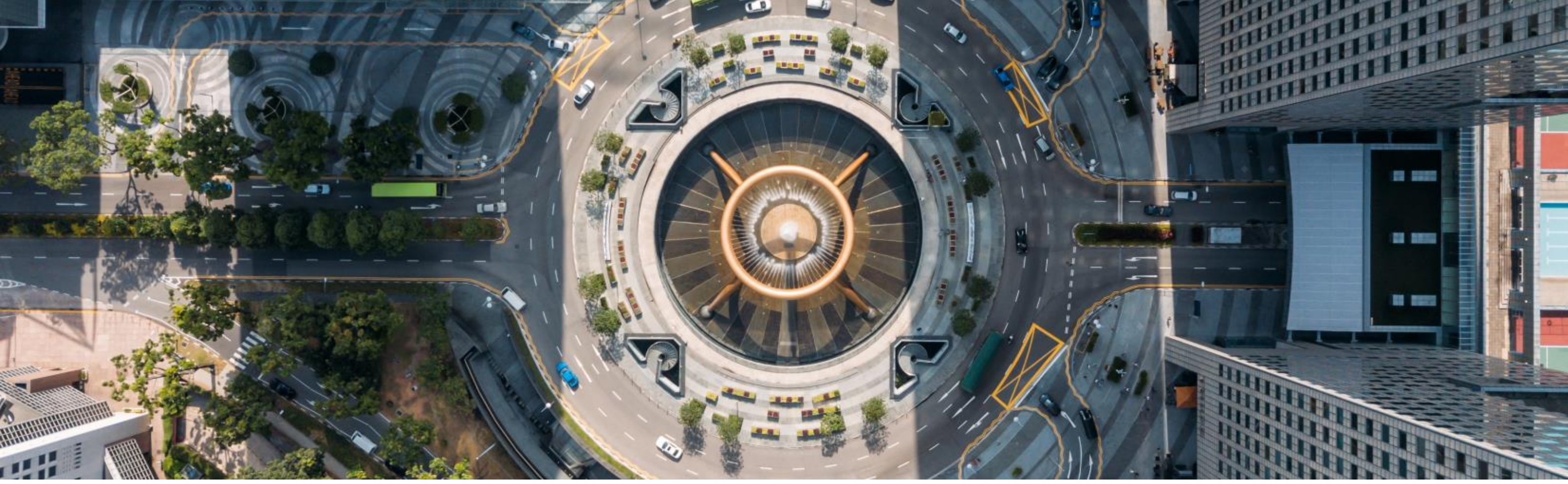
The US dollar's unique status as the world's reserve currency remains unchanged (see Figure 2). The deep and liquid US sovereign bond market as well as strong and stable institutions mean that Treasuries are effectively the definition of a "risk-free" asset, fully backed by the US government. De-dollarisation may be happening, but it is a very slow and gradual process. Strictly speaking, it is more about diversifying to other currencies and/or gold as reserve assets.

That said, volatility in the Treasury market will likely stay. The term premium, especially at the long end of the yield curve, has been rising amid fiscal sustainability concerns. In other words, investors demand for additional return for holding longer-term bonds compared to shorter-term bonds.

FIGURE 2.
DOLLAR' REMAINS THE WORLD'S RESERVE CURRENCY



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



CAN THE MASSIVE SUPPLY OF US TREASURIES BE ABSORBED?

No practical alternative to US Treasury market

Investors concern about whether there are sufficient demand for US Treasuries as approximately USD 9.2 trillion in Treasuries, about one-third of total outstanding Treasuries, mature in 2025, with a significant portion due before July 2025. That said, US Treasury kept nominal auction sizes in 2Q, unchanged for the fifth consecutive quarter, and reiterated its forward guidance for no change for "at least the next several quarters".

With no plausible substitute for the US Treasury market (its openness, depth and breath are unmatched by other markets), demand remains strong from banks and investment companies, as well as insurers and pension funds, especially for issuance towards the front-end of the curve. Vanguard, Blackrock, JPMorgan, Japan Government Pension, Allianz, Nomura and Prudential are some of the top holders of US Treasuries.

REBOUND IN YIELDS ARE OPPORTUNITIES TO ACCUMULATE US BOND EXPOSURE

We have a positive stance on US Treasuries with a 12-month 10-year yield target at 4.25% and prefer short to intermediate maturities. High volatility in US Treasury market also presents opportunity to monetise volatility to engage in Treasury-related structured solutions with enhanced yields.

With a US slowdown (no recession) our base case scenario, we expect the Fed to have two rate cuts (in September and December) this year and two more in March and June next year. Therefore, any bounce in yields due to US fiscal concerns or tariff-induced temporary inflation are buying opportunities for US Treasuries and investment grade corporate bonds.

Overview of our CIO Asset Allocation for June 2025

	Views: Current	Views: Prior	Constituents	We like	Comments
EQUITIES	=	=	Markets	UK, Japan, Brazil, China, South Korea, Singapore & Indonesia	■ **Remain Neutral on Global Equities**, awaiting more clarity post July 9th on tariffs. **Diversification is the key.**
			Sectors	Positive Healthcare and Utilities. For Europe: Financials, Industrials, Materials	■ **We downgrade EU Insurance from Positive to Neutral and EU Media sector from Neutral to Negative.**
			Styles/ Themes	Megatrend Themes	■ Circular economy, electrification, security & income themes.
BONDS	=	=	Govies	Eurozone, UK, US	■ **We like government bonds in core EU countries and the UK. We also like US inflation-linked bonds.** ■ Our 12-month US 10Y yield remains unchanged at 4.25%, 12-month target: German 10Y bund increase yield target from 2.5% to 2.75%. UK 10Y gilt yield from 4.0% to 4.2%.
	+	+	Segments	EUR and GBP Investment grade	■ **We continue to like EUR and GBP investment grade corporate bonds.** ■ We remain neutral on High Yield and EM bonds (USD+local currency).
CASH	-	-			
COMMO-DITIES	=	+		Gold	■ **Gold – Neutral as we expect short-term consolidation and target at $3300/oz.** Look to buy on weakness. ■ Oil – **Still Negative.** Brent target range is **$55-65**. ■ Base metals – **Neutral. Outlook for the manufacturing sector has been eroded by tariff hikes.**
FOREX			USDJPY		■ 12-month target at 140
			EURUSD		■ 12-month target at 1.20
			CNHUSD		■ 12-month target at 7.20
ALTER-NATIVE	+	+		Hedge funds (long-short equities, relative value)	

Note: + Positve / = Neutral / - Negative

GDP & CPI Forecasts

		GDP (YoY%) 2024	GDP (YoY%) 2025f	GDP (YoY%) 2026f	CPI (YoY%) 2024	CPI (YoY%) 2025f	CPI (YoY%) 2026f
Developed	US	2.8	1.5	1.5	2.9	3.0	3.3
	Japan	0.1	0.7	0.4	2.7	3.3	2.1
	Eurozone	0.8	1.1	1.3	2.4	2.1	1.9
	UK	1.1	1.2	1.0	2.5	3.3	3.6
North Asia	China	5.0	4.8	4.5	0.2	0.0	1.0
	Hong Kong*	2.5	1.5	1.9	1.7	1.9	2.2
	South Korea	2.0	1.0	1.7	2.3	2.2	2.1
	Taiwan	4.6	2.2	2.0	2.2	2.3	2.0
South Asia	India	8.2	6.5	6.3	5.4	4.6	4.1
	Indonesia	5.0	4.8	5.0	2.3	1.8	2.0
	Malaysia	5.1	4.0	4.3	1.8	1.8	2.0
	Philippines*	5.7	5.5	5.8	3.2	2.6	2.9
	Singapore	4.4	1.4	1.7	2.8	0.8	1.6
	Thailand	2.5	2.0	2.4	0.4	0.8	1.6

Source: BNP Paribas Group Economic Research, BNP Paribas Global Markets forecasts as of 30 May 2025
** IMF data and forecasts as of 30 May 2025*

GROWTH

- **We upgraded our US GDP forecast from 1.3% to 1.5% to reflect the better tariff outlook in the short-term.** The key for GDP forecasts will now be the level and duration of tariffs globally. The exemptions and the 90-window give time for trade deals to limit damage. If we don't get framework agreements in the coming weeks, further downgrades are possible. Countries that are further along with negotiations include India, Japan, South Korea, and the UK. The base case could be lower levels on tariffs, circa 10% on allies and 30-50% on China. The key risk is sustained uncertainty regarding tariffs weighing on both consumer and business sentiment
- **Furthermore, how much will China stimulate given the lower tariffs?** It will depend on the negotiations following the truce.

INFLATION

- **The longer trade uncertainty (and potential retaliation) lasts, the higher the impact of tariffs on inflation and lower global growth.**
- While we expect US inflation of over 3% this year due to the impact of tariffs, the longer-term inflation expectations have not moved materially.
- However, the current stagflationary environment, in particular in the US, means that the duration of tariff negotiations will be crucial to any peaking or worsening of near-term inflation.
- **Importantly, other parts of the world including Europe and China have ample room to continue cutting rates given falling or low inflation.**

Equities

POSITIVE NEUTRAL NEGATIVE

OVERALL GLOBAL: NEUTRAL

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

OVERALL ASIA: POSITIVE

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

- **We remain selective in US equities**. Many economic actors are losing confidence. Uncertainty will lead to lower consumption, investment and job creation. While the recent positive news regarding tariffs and the frontloading phenomenon (heavy precautionary purchases before tariffs are implemented) have alleviated some of these concerns, it is only a matter of weeks, if not days, before US hard data follows the downward trend of US soft data (very weak confidence indicators).
- **From Escalation to De-escalation: Tariffs will likely remain at historically high figures**, though not as elevated as they were on "Liberation Day". The market could break upward if there is any breakthrough in trade deals with India, South Korea, or Japan.
- **Therefore, we should diversify in terms of both asset classes and geography. In Europe, we favour select themes such as electrification, infrastructure and EU strategic autonomy. Furthermore, supported by sizeable fiscal stimuli, a market segment worth revisiting is European SMID caps.** They are trading cheaply relative to large caps, and their Q1-25 results have been strong.
- We downgrade **EU Insurance from Positive to Neutral** as it is no longer cheap after a strong rally this year.
- We downgrade **EU Media sector from Neutral to Negative.**

		1-month (%)	YTD (%)	2024 (%)	Forward PE (x)	Trailing PB (x)	Dividend Yield (%) 2025f	EPS Growth (%) 2025f	EPS Growth (%) 2026f	ROE (%) 2025f
Developed	US	6.3	0.6	23.4	21.7	5.1	1.6	9.3	14.0	18.7
Developed	Japan	5.2	-0.1	18.5	14.3	1.5	2.3	10.3	4.5	8.7
Developed	Eurozone	4.5	11.7	6.8	14.7	2.0	3.0	2.2	11.6	12.8
Developed	UK	2.9	7.1	5.3	12.6	2.0	3.4	2.7	11.2	13.4
	Asia Ex-Japan	5.0	7.1	9.8	13.2	1.8	2.6	10.9	12.2	12.1
North Asia	China	3.2	12.6	16.3	11.3	1.5	2.7	6.0	11.7	11.4
North Asia	China A-shares	1.8	-2.4	14.7	12.0	1.7	3.2	8.0	8.2	10.8
North Asia	Hong Kong	9.0	12.8	-4.7	12.9	1.1	4.0	7.8	7.3	7.8
North Asia	South Korea	4.5	9.8	-13.7	8.5	0.9	2.5	22.2	13.7	10.4
North Asia	Taiwan	5.4	-8.2	40.9	14.7	2.8	2.6	15.6	13.2	16.6
South Asia	India	2.4	2.6	14.3	23.0	4.1	1.2	13.8	15.8	14.7
South Asia	Indonesia	7.1	-0.8	-12.3	11.8	2.1	7.1	-3.0	7.2	15.5
South Asia	Malaysia	-2.0	-8.9	12.8	13.0	1.3	4.2	2.6	6.4	10.7
South Asia	Philippines	0.4	0.5	1.6	10.6	1.8	2.9	9.0	10.7	14.7
South Asia	Singapore	2.7	3.4	20.0	14.8	1.6	4.9	3.6	7.3	10.4
South Asia	Thailand	-5.4	-15.9	-1.6	14.2	1.6	4.1	9.4	8.1	10.2

Source: MSCI indices in local currency terms, Bloomberg, Datastream, BNP Paribas (WM), as of 30 May 2025

Fixed Income

POSITIVE NEUTRAL NEGATIVE

OVERALL GLOBAL: NEUTRAL		
Positive	Neutral	Negative
US Treasuries German Bunds UK Gilts EUR and GBP IG	US IG High Yield EMD (LC) EMD (HC)	-

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

		Total Return (%) 1-Month	YTD	2024	Yield-to-Worst (%)
Asia	Asia USD Bond	0.2	2.8	4.5	5.2
	Asia Local Currency Bond	2.0	7.9	1.0	3.7
	China	0.1	3.1	5.7	5.2
	Hong Kong	0.0	2.9	4.7	5.0
	India	1.0	3.2	7.4	6.0
	Indonesia	0.5	2.5	0.8	5.4
	Singapore	-0.3	2.4	3.0	4.6
	South Korea	-0.1	2.8	4.4	4.7
	Philippines	0.2	3.2	1.4	5.3
Other Regions	US 10-year Treasuries	-1.0	3.6	0.1	4.4
	US Investment Grades (IG)	-0.7	2.4	1.3	4.7
	US High Yield (HY)	1.7	2.7	8.2	7.5
	Emerging Market USD Bond	0.3	2.8	5.2	5.6

Source: Barclays indices, Bloomberg, BNP Paribas (WM) as of 30 May 2025

US Treasury 12-month Yield Targets (%)	2Y	5Y	10Y	30Y
	3.60	3.75	4.25	4.5

- Rate forecasts: We **expect Fed rate cuts in September and December in 2025 and two more in 2026, leading to a terminal rate of 3.5%.** We expect the ECB to further cut rates in July, bringing the terminal rate to 1.75%. We stay Positive on EU core govies but reduce recommended maturities to intermediate. Conversely, we increase maturities to intermediate from short in the US.
- Govies: Investors are likely to continue to look for stable income to park their cash. We are Positive on EU core government bonds, UK government bonds, US Treasuries and US inflation-linked bonds.
- **Our 12-month forecast remains at 4.25% in the US 10-year Treasury and for the 10-year bund raised from 2.5% to 2.75% in Germany. 10-year UK Gilt raised from 4.0% to 4.2%.** Any rebound in yields is a good opportunity to accumulate sovereign bonds.
- Corporate IG: We prefer EUR IG (Positive view) over USD IG (Neutral view) due to its better credit metrics and lower volatility. We prefer maturities up to 7 years in the eurozone and up to 5 years in the US. Bonds are providing diversification to global multi-asset investors.

Forex & Commodities

POSITIVE NEUTRAL NEGATIVE

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

COMMODITIES		
Positive	Neutral	Negative
	Base Metal Gold	Oil

- EUR: We believe that capital is already being reallocated away from US assets, a trend that would not be reversed by tariff de-escalation. We continue to believe that the unwinding of US exceptionalism and the growing risk of a deterioration in the US economic outlook are limiting demand for US assets. The interest rate differential is not supportive of the USD. Taking these factors into account, **we have changed our 3-month target to 1.15 and our 12-month target to 1.20 (the value of one EUR).**
- JPY: **The BoJ held its monetary policy at 0.50% in May.** The combination of a hawkish Bank of Japan and slowing US data in the coming months should help sustain upward potential for the JPY. We to see the JPY benefitting from more rotation out of US assets. **Our 3-month target is 145 and our 12-month target is 140 (value of one USD).**
- GOLD: Neutral - We expect some consolidation in the short term. The peak of uncertainty should be behind us, with a likely de-escalation in the trade war and a possible ceasefire agreement in Ukraine. Our target is **USD 3300**. We look to buy on weakness.
- OIL: Negative – We maintain our Negative view, with a target range of USD 55-65, given the potential for further downside risks, including slower global growth, Trump's policy of favouring lower oil prices, substantial non-OPEC supply growth, OPEC+ production hikes (and a lack of discipline), and the possible lifting of sanctions in the event of deals with Russia and Iran.
- BASE METALS: Neutral – We are short-term Neutral due to the expected economic slowdown. We still expect growing demand for energy transition and infrastructure to outpace expected supply growth in the long-term.

Forex Forecasts

		Spot	3-month		12-month	
		As of 30 May 2025	View	Target	View	Target
Developed	USD Index*	99.47	=	98.83	-	95.33
	Japan	142.6	=	145	+	140
	Eurozone	1.137	=	1.15	+	1.20
	UK	1.336	=	1.35	=	1.38
	Australia	0.640	=	0.66	=	0.64
	New Zealand	0.593	=	0.60	=	0.60
	Canada	1.381	-	1.40	-	1.40
Asia Ex-Japan	China	7.263	=	7.20	=	7.20
	South Korea*	1,422	+	1,370	+	1,330
	India	84.48	-	88.0	-	88.0
	Indonesia*	16,600	=	16,450	=	16,300
	Malaysia*	4.315	=	4.25	+	4.18
	Philippines*	55.86	=	55.7	=	55.4
	Singapore*	1.306	=	1.28	+	1.26
	Thailand*	33.41	=	32.8	+	32.2

Source: BNP Paribas (WM) as of 30 May 2025
**BNP Paribas Global Markets forecast as of 30 May 2025*

Note: + Positve / = Neutral / - Negative

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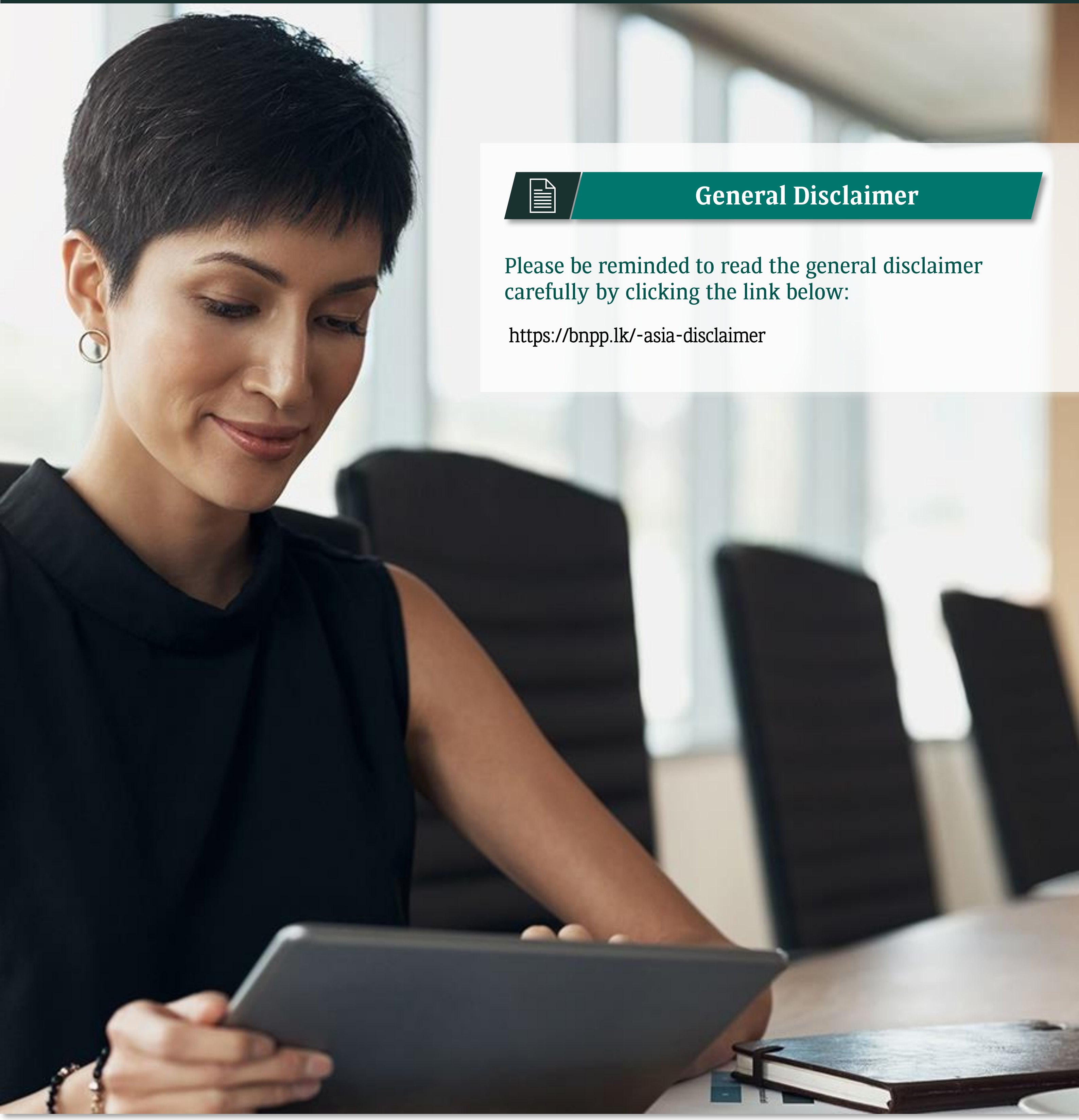

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