C.I.A. NETWORK

Asset Strategy in Brief

May 2025

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WEALTH MANAGEMENT

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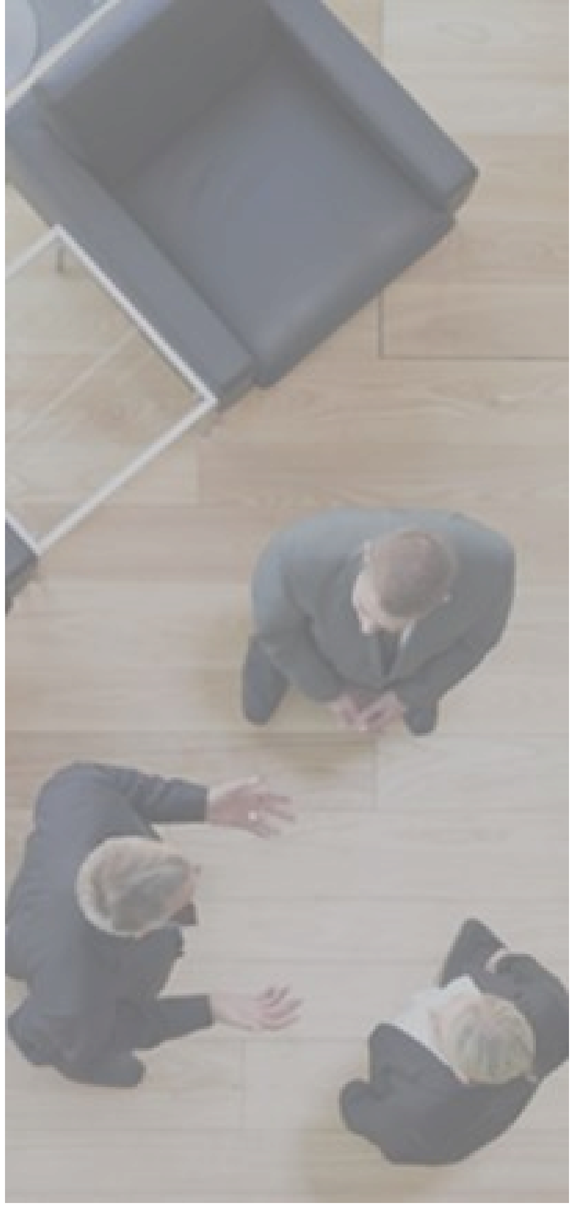

Summary

01

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 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 and on UK gilts – Positive on US Treasuries post 2 April tariff announcement. Our 3-month 10Y US Treasury yield target is 4.0%. – US, Euro central banks to cut benchmark rates to 4%, 1.75% by end-2025 – We see both the US 2-year and 10-year yields at 4.25% in 12 months. Our 12-month target on the German 10-year bund yield is 2.5%.
Credit	+	– We stay Positive given the strong technicals, high carry and low volatility. We prefer maturities of up to 10 years in the eurozone and maturities of up to 5 years 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	+	– Maintaining a Neutral strategic view on Equities. Potential for a further short-term rebound on excessive pessimism and prospect of softening US policy. – Favour UK, Japan, China. Remain Negative on the US. – Positive on Health care and Utilities. For the EU, Positive on Financials, Industrials and Materials. – Negative on US IT and Consumer Discretionary. – We downgrade US Industrials from Positive 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.
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 has moved up to USD 3300/ounce. – Negative stance on Oil, price range for Brent crude oil of USD 55-65 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: our 3-month target is 1.12 and our 12-month target is 1.15 (value of one EUR). - EUR/GBP: we change our 3-month target to 0.85 and our 12-month target to 0.87 (value of one EUR). - USD/JPY: we change our 3- and 12-month targets to 140 (the value of one USD).

Asset Allocation

Allocation changes this month:

- Equities: We downgrade US Industrials from Positive to Neutral.
- Bonds: For the Fed, we expect rate cuts in September and December and two more in 2026, leading to a terminal rate of 3.5%. As for the ECB, we still expect a rate cut in June, and we add another in July, taking the terminal rate to 1.75%.
- FX: EUR/GBP: we change our 3-month target to 0.85 and our 12-month target to 0.87 (value of one EUR). USD/JPY: we change our 3- and 12-month targets to 140 (value of one USD). USD/CAD: we change our 3-month target for the USD/CAD to 1.40 and maintain our 12-month forecast at 1.40 (value of one USD).
- Commodities: For oil, we maintain our Negative view and we lower our target range to USD 55-65. For Gold, we remain Positive in the long term, but we are tactically moving from a Positive to a Neutral stance. We also increase our price target from USD 3200/ounce to USD 3300/ounce.
- Alternatives: We downgrade our view on Event-Driven strategies from Positive to Neutral.

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	1.3	1.1	3.1	3.7	US Fed Funds Rate	4.50	4.50	3.75	US 10Y yield %	4.30	4.25
Eurozone	1.0	1.3	2.1	1.9	ECB Deposit Rate	2.25	1.75	1.75	Euro 10Y yield %	2.53	2.50
Japan	0.7	0.2	3.2	2.1	Bank of Japan Policy Rate	0.50	0.50	0.75	UK 10Y Yield %	4.51	4.00
UK	1.0	0.8	3.2	2.5	Bank of England Base Rate	4.50	4.00	3.5	S&P 500	5606	n/a
China	4.5	4.3	0.8	1.0	China 7D reverse repo rate	1.50	1.30	0.8	Euro STOXX 50	5263	n/a
									Oil Brent USD/bbl	62.15	55-65
									Gold USD/oz	3395	3300

Source: BNP Paribas WM. As at 6 May 2025

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Bonds

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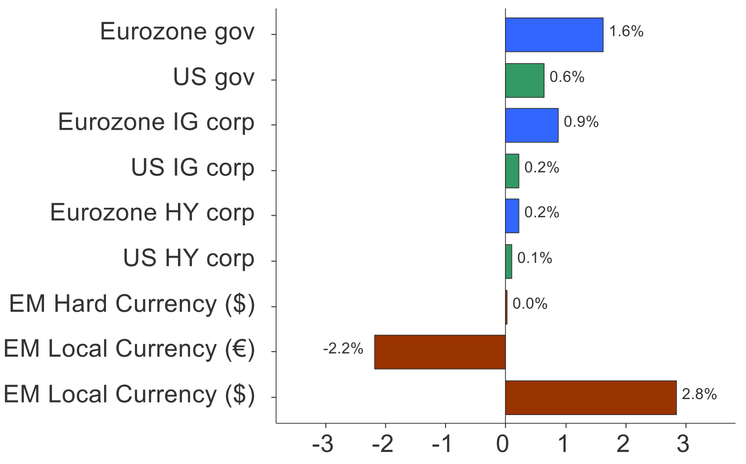
Fixed Income at a glance

In April, political uncertainty in the US fuelled market volatility. US and eurozone government bond yields fell on safe-haven demand, although the US lost some of its safe-haven status. Credit underperformed government bonds as spreads widened slightly, with high yield bonds coming under pressure while investment grade bonds held up relatively well.

We continue to prefer high quality, highly liquid bonds, specifically US and core EU sovereign bonds, as well as EUR investment grade corporate bonds.

10-year yield	06/05/2025	12-month target
US	4.30	4.25
Germany	2.53	2.50
UK	4.51	4.00

Returns over one month



Source: LSEG Datastream, Bloomberg and JPM indices, 28/04/2025

Central Banks

We push out our sequence of rate cuts for the Fed and add cuts in 2026 given the US tariffs impacts. **We expect rate cuts in September and December and two more in 2026, leading to a terminal rate of 3.5%. As for the ECB, we still expect a rate cut in June, and we add another in July, taking the terminal rate to 1.75%.**

Government Bonds

Investors are likely to continue to prefer safe-haven assets to park their cash. **We are Positive on EU core government bonds, UK government bonds, US Treasuries and US inflation-linked bonds.**

Peripheral bonds

We expect peripheral spreads to remain compressed over the next few months, and we think they will widen in H2 2025 as German growth picks up relative to the periphery. **We remain Neutral on the asset class**.

Corporate Investment Grade (IG) Bonds

We prefer EUR IG (Positive view) to USD IG (Neutral view) due to its better credit metrics and lower volatility. **We prefer maturities up to 10 years in the eurozone and up to 5 years in the US.**

Corporate High Yield (HY) Bonds

Fund outflows slowed considerably, and the primary market froze. Credit spreads have retraced some of the widening. All eyes are on the earnings season to gauge the health of corporate fundamentals.

Emerging Market (EM) Bonds

We prefer a Neutral stance as the unpredictability of US policy and its impact on growth, inflation and the dollar could hurt emerging markets.

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Currencies

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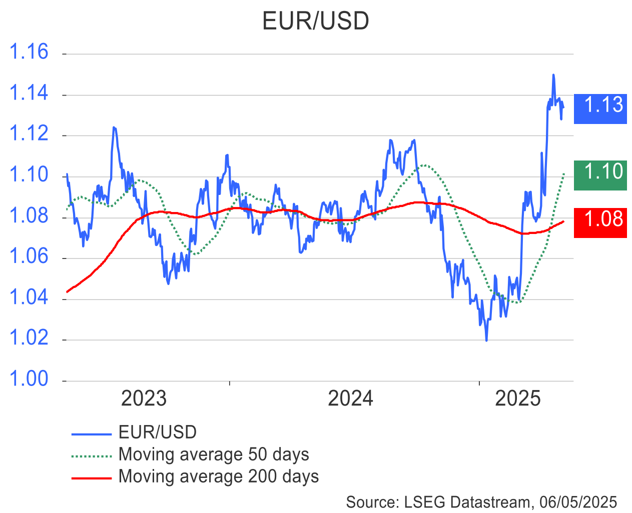
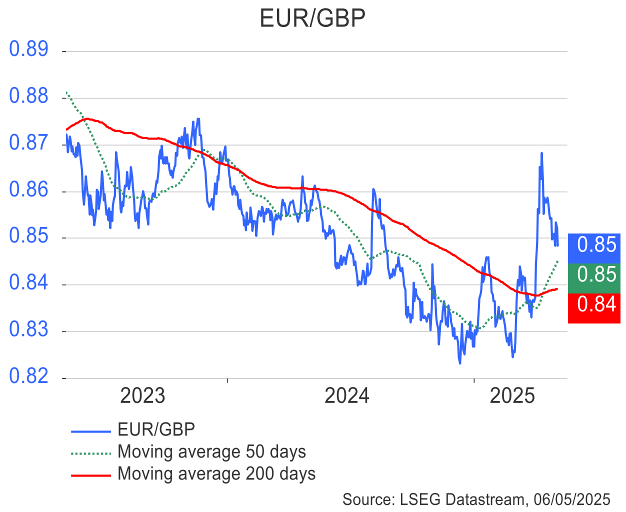
Currencies at a glance

1. **EUR/USD:** The USD's recent weakness has been surprising given the high level of uncertainty. High tariffs have reduced the potential for US economic growth in the coming years and there is a risk of stagflation. In addition, international investors have started to reverse some USD flows. We also believe that the expected return differential for equities has narrowed in favour of the EUR. **Taking these factors into account, our 3-month target is 1.12 and our 12-month target is 1.15 (value of one EUR).**
2. **EUR/GBP**: Weak UK growth and fiscal vulnerabilities could weigh on the GBP. In addition, UK growth is being constrained by higher bond yields, which in turn may lead to further fiscal pressures. **Taking these factors into account, we change our 3-month target to 0.85 and our 12-month target to 0.87 (value of one EUR).**





>> TARGET 12M EUR/CHF: 0.94

The SNB cut rates by 25bp in March to 0.25%. The currency remains expensive, and the interest rate differential is not supportive of the CHF. The CHF could benefit from the shift away from USD assets, but the tariffs on pharmaceuticals will be a drag on Swiss growth. We expect the SNB to cut rates by 25 basis points in June, with the risk of FX intervention. **Our 3-and 12-month EUR/CHF targets are 0.94 (value of one EUR).**

>> TARGET 12M USD/JPY: 140

The BoJ held its monetary policy at 0.50% in May. We expect the JPY to continue to outperform in an environment of repatriation and reallocation away from US assets. We also expect interest rate differentials between the US and Japan to favour the JPY. **Given that, we change our 3- and 12-month target to 140 (the value of one USD).**

>> TARGET 12M EUR/NOK: 11.30

Norges Bank kept its key rate on hold at 4.5% in March. We believe that additional fiscal stimulus and positive interest rate differentials could support the NOK. However, lower oil prices amid weaker global growth expectations are a headwind. **Our 3-month EUR/NOK target is 11.60 and our 12-month target is 11.30 (value of one EUR).**

>> TARGET 12M USD/CNY: 7.30

The PBoC left the policy rates (LPR) unchanged in March. The PBoC is keeping the USD/CNY fixing flat at around 7.17 despite the additional US tariffs. The +2% band rule implies that the USD/CNY should not go above 7.32. **Our 3-and 12-month USD/CNY targets are 7.30 (value of one USD).**

>> TARGET 12M EUR/SEK: 11.20

The Riksbank left its key rate unchanged at 2.25% in March. We believe the reasons for the outperformance are the end of the Riksbank's easing cycle, upside inflation surprises, improving macroeconomic data and the outperformance of Swedish equities. However, we believe that the SEK remains sensitive to tariffs. **Our 3-month EUR/SEK target is 11 and our 12-month target is 11.20 (value of one EUR).**

>> TARGET 12M USD/CAD: 1.40

The Bank of Canada left its key interest rate unchanged at 2.75% in April. Tariff cuts are possible if a border deal is reached, but this is offset by the risk of additional tariffs on other strategic goods. Further fiscal stimulus and the post-2025 election environment could support the CAD. **We change our 3-month target for the USD/CAD to 1.40 and maintain our 12-month forecast at 1.40 (value of one USD).**

Forex at a glance

FX FORECASTS EUR

	Country		Spot 06/05/2025	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1.13	Neutral	1.12	Neutral	1.15
	United Kingdom	EUR / GBP	0.85	Neutral	0.85	Negative	0.87
	Japan	EUR / JPY	162.02	Positive	157	Neutral	161
	Switzerland	EUR / CHF	0.93	Neutral	0.94	Neutral	0.94
	Australia	EUR / AUD	1.75	Positive	1.70	Negative	1.80
	New-Zealand	EUR / NZD	1.89	Neutral	1.87	Neutral	1.92
	Canada	EUR / CAD	1.56	Neutral	1.57	Negative	1.61
	Sweden	EUR / SEK	10.86	Neutral	11.00	Negative	11.20
	Norway	EUR / NOK	11.67	Neutral	11.60	Positive	11.30
Asia	China	EUR / CNY	8.18	Neutral	8.18	Negative	8.40
	India	EUR / INR	95.77	Negative	98.56	Negative	101.20
Latam	Brazil	EUR / BRL	6.49	Neutral	6.50	Negative	6.90
	Mexico	EUR / MXN	22.37	Negative	23.52	Negative	25.30

Sources: BNP Paribas, LSEG

FX FORECASTS USD

	Country		Spot 06/05/2025	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1.13	Neutral	1.12	Neutral	1.15
	United Kingdom	GBP / USD	1.34	Neutral	1.32	Neutral	1.32
	Japan	USD / JPY	142.84	Neutral	140.00	Neutral	140.00
	Switzerland	USD / CHF	0.82	Neutral	0.84	Neutral	0.82
	Australia	AUD / USD	0.65	Neutral	0.66	Neutral	0.64
	New-Zealand	NZD / USD	0.60	Neutral	0.60	Neutral	0.60
	Canada	USD / CAD	1.38	Neutral	1.40	Neutral	1.40
Asia	China	USD / CNY	7.22	Neutral	7.30	Neutral	7.30
	India	USD / INR	84.44	Negative	88.00	Negative	88.00
Latam	Brazil	USD / BRL	5.72	Neutral	5.80	Negative	6.00
	Mexico	USD / MXN	19.72	Negative	21.00	Negative	22.00
EMEA	South Africa	USD / ZAR	18.22	Neutral	18.00	Positive	17.50
	USD Index	DXY	99.24	Neutral	100.39	Neutral	98.71

Sources: BNP Paribas, LSEG

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Equities

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100 Days of Chaos

The risks are still rising

- **A gentle bear – until now!** Based on historical patterns, the change in valuations have been relatively modest. It would be the first time that the low in valuations hasn't been significantly below the long-term average.
- **Recession risks increasing.** We have once again lowered our growth forecast for the US due to increasing uncertainty and the negative impact of US (trade) policy. While we still believe that a recession can be (narrowly) avoided, the markets still seem to be underestimating this risk. At the same time, (upside) inflation risks remain elevated.
- **What about the left tail?** Supportive technicals (i.e. systematic demand) and depressed sentiment (AAIIBULL/BEAR still near lows, Fear & Greed at 34) are often cited as reasons for further upside. Remember that bear market rallies are common. We believe the left tail is not fully appreciated by the market.
- **This may be the eye of the storm. In the** eye of the storm there is calm and sometimes sunshine, as in the recent stock market rebound. The impact of deteriorating fundamentals is only now being felt in earnings. We see increasing risks to US margins, and consequently to EPS growth. Our current base case still implies modest EPS growth (+4% yoy), but the case for further downside is building, especially in the event of a sharper slowdown than currently expected.

Main recommendations

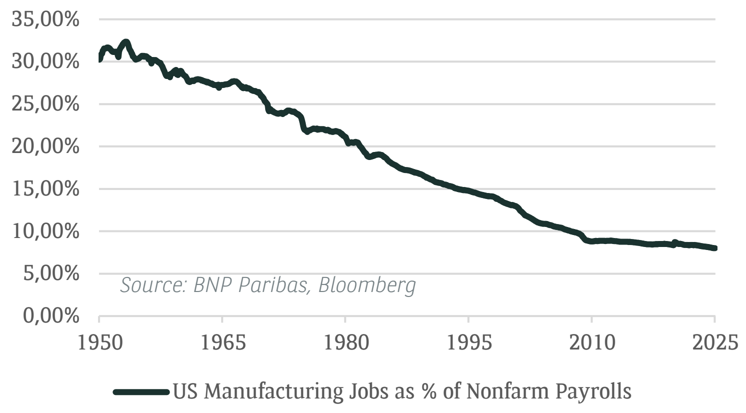
Sell the rip, don´t buy the dip! The damage to the US economy from the loss of confidence appears to be having a lasting impact on US companies, both domestically and in foreign markets. We remain Negative on US equities as a whole and would advise investors, who are heavily exposed to US large-cap and technology stocks, to reduce their holdings in any short-term market rally.

Position for better days ahead – Now that the US administration has blinked, we think the chances of some positive headlines on trade deals in the future are increasing. Uncertainty is likely to remain high (trade deals take years to negotiate), but beneficiary countries should see some relief. We recommend rebalancing out of US large caps and into cheaper, higher-yielding international equities: Japan, the UK, China and selected eurozone sectors such as financials.

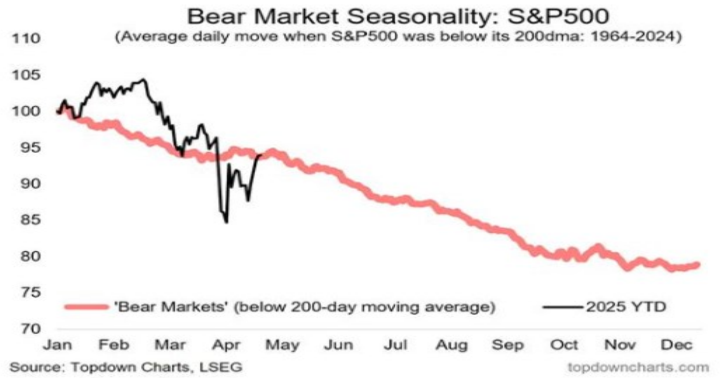
We downgrade US Industrials from Positive to Neutral. The US reindustrialisation theme should suffer from weaker growth and declining confidence in US reliability. We downgrade the sector on valuation and growth concerns.

The key risk is a US recession, which would turn earnings growth negative in most major markets. A stagflationary episode in the US that prompts the Fed to raise interest rates is something of a black swan event!

MAGA? Not via Manufacturing



(BEAR) MARKET SEASONALITY MIGHT HURT



Asian Equities view

ASIA COUNTRY PREFERENCE

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

- **China** - We believe that Beijing is still committed to achieving its growth target of around 5% this year. Given the negative impact of the tariff war, the authorities will accelerate the implementation of the measures outlined by the NPC in March (and mentioned, as expected, at the April Politburo meeting). Fresh stimulus is likely to be introduced in H2 if needed. Valuation remains attractive, with the MSCI China trading at 11x forward P/E. Despite recent corrections, there is still a large valuation gap between China tech (17x) and Mag 7 (26x).
- For the onshore A-share market, long-term funds "the national team" continues to buy to support the downside. For the Hong Kong market, we continue to see strong southbound flows. The momentum in the tech sector after the success of DeepSeek is one of the main reasons for the inflows. Another key reason is that mainland investors are concerned about CNY depreciation and want to diversify into HKD assets as well. We prefer a barbell strategy for investing in China, focusing on the tech sector on the one hand, and the high-dividend plays in banks and telecoms on the other.

China stock market is more domestically-oriented with less exposure to foreign earnings

China's stock market is relatively less exposed to foreign revenues than its Asian peers

Percentage of total revenues defined as foreign sourced (%)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Taiwan	66%	68%	67%	67%	69%	68%	68%	69%	73%	70%
Korea	42%	42%	42%	42%	42%	42%	42%	45%	46%	44%
Japan	34%	36%	37%	36%	38%	38%	37%	37%	41%	44%
India	25%	24%	24%	23%	23%	22%	22%	20%	20%	20%
China	12%	11%	16%	12%	12%	13%	11%	12%	13%	12%

Note: For companies with a 3M ADTV > USD5m

Source: UNCTAD, Bloomberg, Factset, BNP Paribas Exane Research, as of 31 Mar 2025

Past performance is not indicative of current or future performance.

05

Commodities

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Commodities at a glance

After a decent performance in Q1, **industrial metals** corrected in early April as the trade war raised fears of a major global growth slowdown. Copper has seen some pre-buying on fears of US tariffs, but it has been exempted for now.

Y-t-d copper is up +8%, tin +11% and nickel +3%, but zinc is down -12%, aluminium -4% and iron ore -4%.

Brent fell below USD 70 (with a low of USD 58, now USD 62) on expectations of lower demand due to the economic slowdown caused by the trade war. In addition, OPEC+ started to reverse its production cuts, even at a faster pace than initially announced. And there are some signs of a lack of discipline within OPEC+, with Kazakhstan possibly leaving the organisation.

Gold rallied to a new all-time high of USD 3500 on 22 April on the back of high uncertainties surrounding the trade war and Trump's attempt to undermine the independence of the Fed. In recent days, gold has corrected slightly on hopes of a de-escalation in the trade war. Gold is up +27% year-on-year and +65% since the start of 2024. **While we remain Positive in the long term, we are tactically moving from a Positive to a Neutral stance.**

BASE METALS

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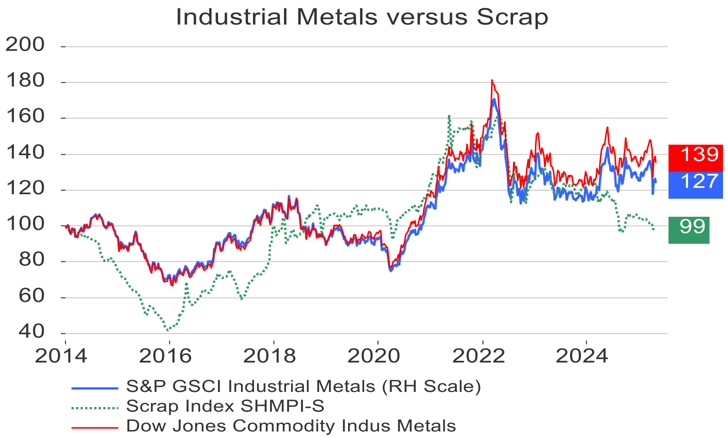
We recently downgraded our view on industrial metals from Positive to Neutral, given the expected economic slowdown due to the trade war. Longer term, we continue to expect growing demand for energy transition and infrastructure to outpace expected supply growth.



Source: LSEG Datastream, 06/05/2025

OIL

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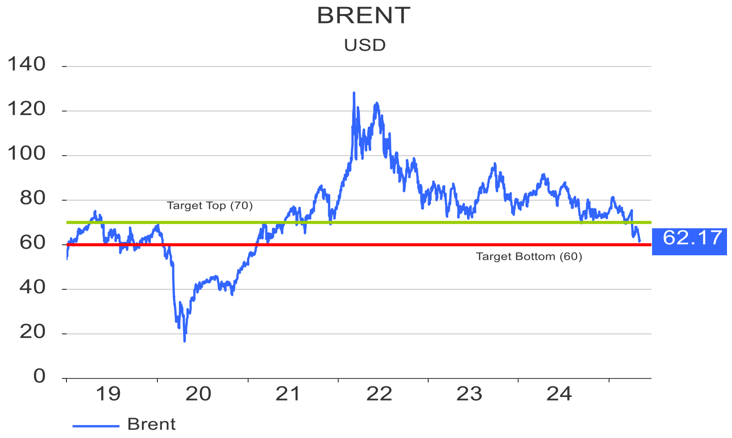
Although the oil price has already fallen to the lower end of our target range of USD 60-70, we see further downside risks: slower global growth, Trump's policies favouring lower oil prices, significant non-OPEC supply growth, OPEC+ production increases (and lack of discipline) and possible lifting of sanctions in case of deals with Russia and Iran. **<u>We maintain our Negative view and lower our target range to USD 55-65.</u>**



Source: LSEG Datastream, 06/05/2025

GOLD

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After the recent strong rally, we expect some consolidation as the peak of uncertainty should be behind us, with a likely de-escalation in the trade war and a possible ceasefire agreement in Ukraine. The depreciation of the USD in recent months justifies a slight increase in our price target from USD 3200/ounce to USD 3300/ounce, but as this target has been reached, **<u>we go to Neutral and recommend buying on a correction.</u>**

Source: LSEG Datastream, 06/05/2025

Our position for this month
Evolution of our position from last month

06

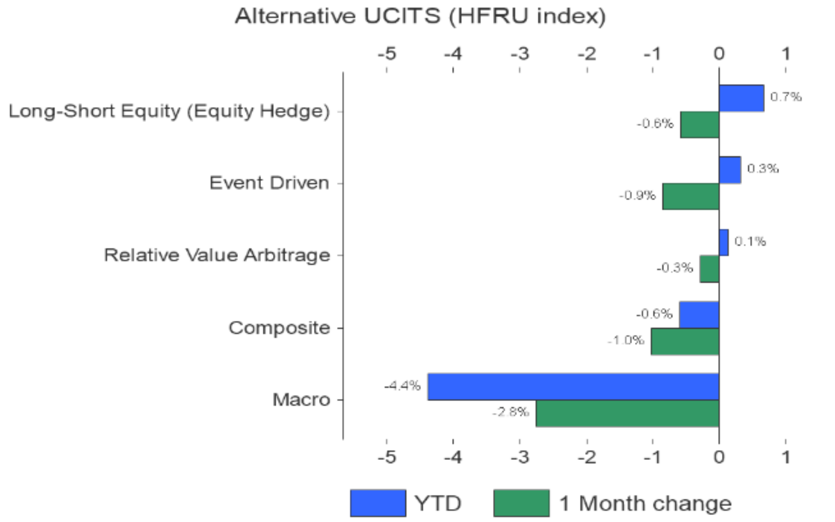
Alternative Investments

Alternative Investments

Performance has fallen in recent weeks, particularly in Relative Value and Macro.

Since January, performance has been generally positive, except for macro, while Long-Short equity have been the best performers.

Positive opinion on Long-Short equity and Relative Value.



Source: LSEG Datastream, 28/04/2025

Global Macro

Neutral: Markets are grappling with the unpredictability of the new Trump administration, with potentially big changes on the horizon. Regardless of the outcome, whether bullish or bearish, macro managers will eventually be able to adapt to new situations and trade them from either a long or short perspective.

Event-Driven

Neutral (from Positive): Erratic and aggressive Trump policies are putting a damper on new deals. CEOs are also likely to reconsider their corporate strategies in light of such policies, such as tariffs. Year-to-date corporate activity is already flat compared with last year's low volumes, with cross-border deals into the US particularly rare.

Long-Short Equity

Positive: Intra market equity dispersion has returned 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 recently improved after the recent period of outperformance concentrated in the "magnificent seven".

Relative Value

Positive: So far, the combination of resilient growth, moderating inflation and stable to falling policy rates has been quite supportive for credit markets. However, volatility and spreads are widening. Credit dispersion may widen further as high yield companies react to "higher for longer" rates as their debt maturities approach. Convertible arbitrage strategies are benefiting from increased issuance and refinancing/liability management.

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