

# Investment Strategy Focus

## The everything bull market

### Summary

- Liquidity-fuelled stock bull market trend intact:** as the current bull market enters year four, positive macro liquidity trends and lower interest rates support further upside despite a recent spike in volatility. **Positive on stocks, we prefer exposure to Japan and UK.**
- US interest rate expectations fall on weaker labour markets and lower energy prices:** with a limited pass-through of US tariffs to the final consumer to date and clearly weaker labour market conditions, the Federal Reserve will continue to lower rates. **Stock markets are supported by a lower 10-year Treasury bond yield, now at 4%.**
- Precious metals enter a corrective phase:** after an impressive performance over the last year, gold and silver prices have corrected from all-time highs. **Albeit perfectly normal in precious metal bull markets, we nevertheless turn tactically Neutral on gold and silver and await better re-entry points in the near future.**
- Keep an eye on private credit market concerns:** while current credit issues are centred on two US auto part suppliers and certain US regional banks, we watch for financial stress spreading more widely e.g. to the high yield credit market. **So far, transmission of these US private credit issues elsewhere remains limited.**
- Our preferred investment ideas today:** in stocks, we favour European listed infrastructure (including Utilities), global Health Care and Chinese A-shares. In higher-yielding bonds, we like emerging market sovereign bonds (local currency). In Alternatives, look to adding strategic base metals exposure e.g. copper and aluminium.

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### SMALL-CAP INDICES SURPASS PREVIOUS HIGHS



Source: BNP Paribas, Bloomberg









Edmund Shing, PhD

Global CIO

BNP Paribas Wealth Management



## Macro, Market Views

	<b>Macro</b>		<ul style="list-style-type: none"> <li>- The key question in the US: how will tariffs impact the US consumer and inflation? The first signs of tariff impacts are now being seen. We expect a further slowing of domestic consumption to occur in H2, even though Q2 growth was 3.8%.</li> <li>- In the eurozone, consumer confidence is being supported by lower ECB rates. The announced German stimulus plan should boost long-term potential growth. Chinese stimulus could bring positive surprises.</li> </ul>
	<b>Bonds</b>	=	<ul style="list-style-type: none"> <li>- Positive on UK gilts (12-month yield target is 4.4%).</li> <li>- Neutral on eurozone sovereigns and US Treasuries post rally; prefer shorter-term (2-5 year) maturities.</li> <li>- US Fed Funds rate target 3.75%, ECB to maintain deposit rate at 2% to end-2025</li> <li>- We see the US 2-year yield at 3.6% in 12 months, 10-year yield at 4.25%. Our 12-month target on the German 10-year bund yield is 2.75%.</li> </ul>
	<b>Credit</b>	+	<ul style="list-style-type: none"> <li>- We stay Positive on Credit given solid corporate balance sheets and cash flows, strong technicals, high carry and low volatility.</li> <li>- We prefer intermediate maturities in the eurozone and in the US.</li> <li>- We continue to like EUR IG corporate bonds, and we stay Positive on UK IG corporates (offering a 5.3% average yield).</li> </ul>
	<b>Equities</b>	+	<ul style="list-style-type: none"> <li>- Positive on Equities on strong liquidity and lower rates, robust growth and earnings momentum. Favour UK, Japan, China, Brazil. We downgrade South Korea from Overweight to Neutral following very strong performance.</li> <li>- Neutral on the eurozone and the US.</li> <li>- Positive on Health Care and Utilities. In the EU, we are Positive on Banks, Industrials and Materials.</li> <li>- Neutral on US Consumer Discretionary, Technology.</li> </ul>
	<b>Real Estate</b>	=	<ul style="list-style-type: none"> <li>- Demand for European real estate continued to improve in Q2 2025, with investment volumes rebounding and rental yields now more attractive at 4.3%-5.0% for prime European commercial property segments. Residential property prices are also rising in Spain, Italy, Germany and the Netherlands.</li> <li>- Industrial/logistics exposure preferred for healthy yields, higher expected rental growth on robust underlying demand growth.</li> </ul>
	<b>Commodities</b>	=/+ /-	<ul style="list-style-type: none"> <li>- Gold: Downgraded to Neutral post record surge in gold price, doubling since early 2024. Increased gold 12m target of USD 4,400/ounce, silver USD 55/ounce target.</li> <li>- Positive view on strategic industrial metals, such as copper, aluminium and tin.</li> <li>- Negative stance on Oil, price range for Brent crude oil of USD 60-70 on weaker global oil demand, potentially higher non-OPEC oil &amp; gas supply and an expected reduction of OPEC+ production quota cuts in 2025.</li> </ul>
	<b>Alternative UCITS/ Private Assets</b>	=	<ul style="list-style-type: none"> <li>- Positive opinion on Macro and Long-Short Equity. We upgrade Event Driven to Positive and downgrade Relative Value to Neutral.</li> </ul>
	<b>FX</b>		<ul style="list-style-type: none"> <li>- The prospect of 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.</li> <li>- EUR/USD 3-month target <b>USD 1.16</b>; 12-month target <b>USD 1.24</b> (value of one EUR).</li> </ul>

## 5 Key Macro Themes for 2026

### 1. The employment paradox: full employment albeit slower wage growth

Unemployment rates in the US, the eurozone and Japan have reached their lowest levels in 20 years. According to Eurostat, more people than ever (almost 172 million) are in employment across the eurozone today. Yet wage growth is easing given a greater precarity of work in the “gig economy” and more AI disruption. In this context, companies are generating structurally higher profitability as capital is favoured over labour.

### 2. Lower interest rates, helped by cheap energy

Interest rates continue to fall worldwide, led by the US Federal Reserve, with a slew of emerging market central banks following suit. Slower wage and rental growth, easing energy prices and persistent political pressure should lead the Fed to prioritise growth over inflation in 2026. The decline in short-term interest rates to as low as zero (in Switzerland’s case) is mechanically pushing down long-term bond yields, despite ballooning debt levels and sizeable refinancing requirements of governments of major economies. Consequently, savers are now faced with lower returns from cash, sovereign bonds, and corporate credit. The hunt for yield is back on.

### 3. Plentiful liquidity can drive stocks even higher

Several factors including plentiful macro liquidity from the US and China, lower long-term rates, strong corporate earnings, continued demand for shares via record buybacks, and buoyant retail investor optimism argue that global stock markets could march even higher in the year ahead despite stretched US stock valuations.

In the fourth year of this market uptrend, we should also expect increasing volatility. We look for ways to participate in this modest upside potential in stocks, while limiting downside risk from market corrections.

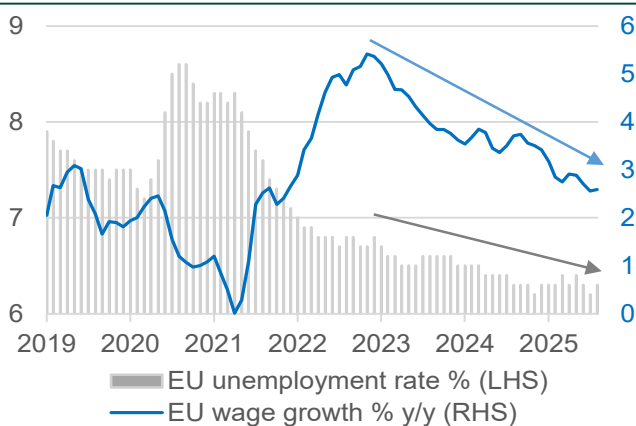
### 4. US dollar dominance is slowly eroding

The 12% depreciation of the US dollar in the first half of 2025 challenged the concept of “American exceptionalism”. Geopolitical volatility around tariffs, lower US interest rates, weakening Fed independence, and a prospective narrowing of the economic growth gap between the US and the rest of the world suggest that dollar weakness can persist. Investors are heavily exposed to both US stocks and the dollar after 12 years of steady outperformance to the end of 2024. However, 2025 marked an inflection point in this pro-US trend, with leadership shifting to World ex-US stocks and currencies. We advocate a rebalancing away from US stocks and the greenback towards the rest of the world.

### 5. Welcome to the new age of resource scarcity

After many years of living in a land of plenty where raw materials were easily accessible and relatively cheap, we are now in an age of resource scarcity. Three factors have ushered in this new era for commodities: i) rising demand for electricity and strategic metals owing to growing investment in technology and defence; ii) the inability to meet this rising demand given a historic underinvestment in new commodity mining and refining capacity; and iii) the greater use of resource supply serving as geopolitical leverage between countries. In sum, we see a new long-run bull market for commodities.

**FULL EMPLOYMENT CAN COEXIST WITH FALLING WAGE PRESSURES**



Source: BNP Paribas, Bloomberg.

**COMMODITY BULL MARKET IN PROGRESS, BROADER THAN JUST GOLD**



Source: BNP Paribas, Bloomberg.



# Stock markets hit new highs, bond yields compress

## Global stocks roar to new highs

Certain bullish themes, such as precious metals and nuclear, are cooling off after an impressive rally, Nevertheless, the global stock bull market, begun in October 2022, and now entering its fourth year, is showing no signs of coming to an end, despite continued geopolitical concerns. The MSCI World index continues to forge new all-time highs, up 6% in euros and 19% in US dollars over the year to date.

What makes this advance to new highs more robust in nature is the broad-based advance globally. Many regional and country indices are simultaneously marching to new highs at the same time across the US, Europe and Asia. This strong upwards momentum is not confined to large-cap stocks: in Europe, the MSCI Europe Small Cap index has also hit a new all-time high together with the US Russell 2000 and the MSCI Emerging Markets Small Cap index.

## Q3 earnings results season in the US starts brightly

Aggregate Q3 earnings momentum remains strong in the US, with an average positive surprise for S&P 500 companies (198 had reported by 29 October) of +2.2% on sales and +7.3% on earnings. According to Factset, a data and analytics provider, S&P 500 companies are now forecast to deliver 11% EPS growth for fiscal year 2025. Profit margins remain close to historic highs, with share buybacks yet to kick in post results to add a further element of demand for shares.

Elsewhere, although it is too early to judge Q3 results, we note a continued rise in 1-year forward earnings estimates both for European and Japanese stocks, thus supporting the move higher in these markets.

## Sovereign and corporate bonds post solid returns

Bullish momentum is evident in a variety of financial markets outside of stocks. Indeed, a host of commodities have performed well this year, as have hedge funds and listed real estate. Both sovereign and corporate bond markets have also delivered steady returns so far this year, with sovereigns doing at least as well as investment grade corporate bonds in the US and Europe.

Thanks to yield compression since January in the US and since March in Europe, benchmark 10-year sovereign bonds have returned 8% year-to-date in the US, 5% in the eurozone and 6% in the UK (all in local currencies).

This compression of yields has been achieved via lower inflation expectations and lower term premia, boosted by a steady fall in eurozone core inflation to 2.4% and in US Supercore CPI (CPI for core services less housing) to 3.2% respectively.

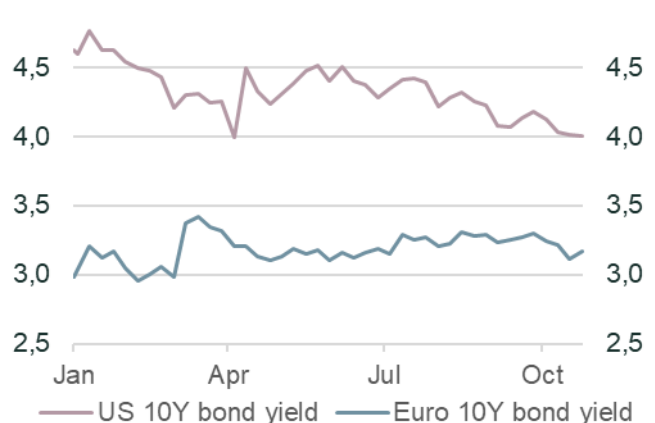
Following this compression in both sovereign and corporate bond yields since March, we would now advise only opportunistic buying on weakness for new money. Recall that long-term bond returns are best predicted by the current yield - on that basis, US and eurozone government bonds do not offer a particularly attractive long-term return potential today.

**WORLD EX-US STILL IN THE LEAD IN 2025**



Source: BNP Paribas, Bloomberg.

**US 10Y BOND YIELD HAS HIT A YEAR LOW AT 4%**



Source: BNP Paribas, Bloomberg

## Private credit concerns: what to watch

### Recent US bankruptcies have caused concern in private credit markets

The recent bankruptcies of US auto part suppliers Tricolor and First Brands have raised questions about the risks of investing in private credit funds. JP Morgan Chase CEO, Jamie Dimon, subsequently added to these concerns with his comment relating to private credit during the JP Morgan quarterly earnings call: *"When you see one cockroach, there are probably more"*.

Investors are grappling with the following key question: Are these bankruptcies specific to these companies or to the auto parts sector, or are they symptoms of a wider problem hiding in certain segments of private credit? What makes investors perhaps more nervous is the relative lack of transparency of private credit funds, and the lack of widespread credit ratings for the underlying corporate loans held in these funds.

The private credit market (dominated by the US) has more than tripled in size from USD 500bn in 2020 to an estimated USD 1.7-2.1 trillion as of early 2025, according to data provider Prequin. It is natural that investors suspect that to feed this growth in private credit demand, that fund providers have accepted exposure to loans with weaker covenants and companies with potentially weaker cash flow and balance sheets.

In our view, this argues for selectivity in choosing which private credit fund providers to work with, and for a focus towards Europe, where loan covenants tend to be stricter than in the US.

### We are watching to see if private credit stress will spread wider through financial markets

To judge whether these concerns are spreading from private credit markets to elsewhere in the financial system, we are monitoring five public market indicators:

- a) US leveraged loan ETFs;
- b) US business development ETFs;
- c) Shares of listed private credit and private equity fund management companies;
- d) US regional bank ETFs;
- e) US corporate bond high yield spreads.

In each of these indicators, there was a notable reaction to the Tricolor and First Brands announcements from 24 September to mid-October. However, since then we have seen stability in each of these measures.

As an example, the US high yield credit spread has risen a mere 0.3% from September lows to 2.8% at present, still far from the year high of 4.4% achieved in April. Similarly, each of the shares and ETFs we monitor remain far above their April lows.

Our conclusion is that there is little evidence of a broadening of financial stress in public markets from these private credit issues at this stage.

**PRIVATE CREDIT-RELATED ETFs HAVE FALLEN SINCE SEPTEMBER**



Source: BNP Paribas, Bloomberg.

**US HIGH YIELD CREDIT SPREAD SHOWS LITTLE STRESS, SO FAR**



Source: BNP Paribas, Bloomberg

## The impact of “Sanaenomics” on Japanese Equities

Stephan Kemper

### A Japanese paradox

Having reached a coalition with the Japan Innovation Party (JIP), Sanae Takaichi, President of the Liberal Democratic Party (LDP), has been elected Japan’s first female prime minister. The appointment is somewhat a paradox: while it could be viewed as a symbolic event representing progress in gender equality, the reality may be very different. Takaichi-san is a staunch conservative, opposing fundamental reforms that are central to Japan’s gender equality debate. Like her mentor and a former prime minister of Japan, Shinzo Abe, she claims to empower women in the workforce yet refuses to confront the entrenched structural and cultural biases that impede gender equity in Japan. The share of female cabinet members (16%), including her, might be a proof in case. We should expect a rather conservative albeit expansionary fiscal policy in Japan going forward.

### Fiscal stimulus ahead

Since the LDP-JIP coalition does not command a majority, political support needs to be brokered on a case-by-case basis. Such a backdrop often encourages horse trading about political projects. These projects are usually related to spending more money and should thus encourage fiscal expansion.

**Overall, we expect a balanced pro-growth and proactive fiscal strategy thus strengthening our constructive view on Japanese equities.**

### Building Takaichi’s castle

The need for fiscal measures to support households that have been hit by soaring (rice) prices (see Chart 1) and to counter US tariff hikes is broadly recognised across the political spectrum. This should help Ms. Takaichi to pursue an expansion in fiscal policies against fiscal hawks within the LDP. Among the proposals listed in the coalition agreement are a gasoline tax cut and an increase of the minimum personal income taxable base. We anticipate that reductions in social security contributions will likely be implemented.

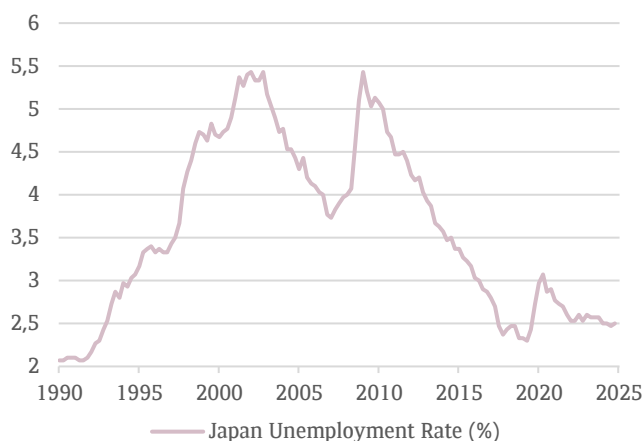
### The two arrows of “Sanaenomics”

Looking at Japanese equities, valuations are no longer obviously cheap. However, we think there are two pillars driving a potential further re-rating.

**Acceleration of earnings growth...:** We expect the growth initiatives advocated by the LDP and JIP to enhance expectations for corporate earnings growth. A higher EPS growth rate should also support higher P/E multiples.

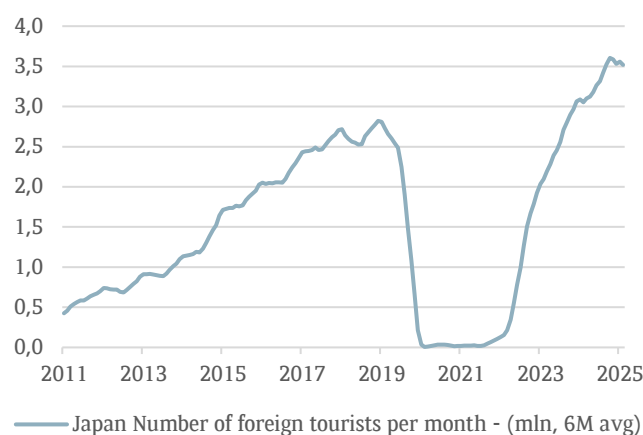
**...and a renewed focus on corporate reforms:** Takaichi-san is a strong advocate of corporate governance reforms with a special focus on retained earnings. If her government successfully intensifies these reforms, Japanese company ROEs could potentially rise. In such a scenario, the capital costs should consequently fall. Assuming they do by 50 bps, the P/E would again rise by 1x.

### JAPAN'S ECONOMY IS CLOSE TO FULL EMPLOYMENT



Source: BNP Paribas, Bloomberg

### TOURISM HAS REBOUNDED SHARPLY, SUPPORTING DOMESTIC GROWTH



Source: BNP Paribas, Bloomberg

# Precious metals: Time for a breather

Patrick Casselman

## A historically sharp price rally for precious metals

Precious metals have had an impressive rally year-to-date: gold +53%, silver, platinum and rhodium +60%-70% and palladium +54%. Since early 2024, the gold price has doubled.

In recent years, the rising gold price has been successively driven by a) geopolitical tensions, b) high inflation, c) gold purchases by central banks and d) the flight of investors to this safe-haven investment in uncertain times (policy uncertainty, trade war, military tensions, increasing government debt, and Trump's attempt to influence the Fed). On top of the traditional appetite of Asian investors for physical gold bars and coins, we have seen a huge inflow of Western investors since mid-2024 via gold trackers.

Other precious metals, such as silver, platinum and palladium had lagged the gold rally until May 2025, but had been making an impressive catch-up since June. This was due to a substitution for gold in the jewellery sector (as gold had become too expensive), the growing demand for industrial applications (electronics, data centres, solar panels, aerospace and defence, etc.), increased investor appetite for mixed precious metals trackers, as well as a tight supply. There has not been a huge investment in new mining capacity in the last decade and there have been temporary supply disruptions in South Africa's platinum mines and silver mines this year. However, the hyperbolic rise in the price of silver and platinum was also driven (or accelerated) by short covering (where investors who have shorted these metals at lower prices have to buy back to close their shorts).

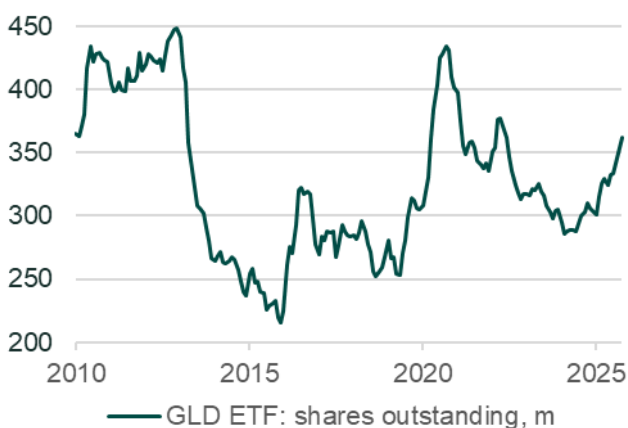
## We downgrade our view on precious metals from Positive to Neutral

After holding a Positive view on precious metals for a long time, we are now downgrading our view Neutral. We think that the market is currently overbought and that there may be some profit-taking and a correction in the short term. In the longer term, we see further upside potential for gold and other precious metals due to tight supply and structurally increased investor interest. **We adjust our 12-month price targets just above recent highs: gold at USD 4,400/ounce (from USD 4,000) and silver at USD 55 (from USD 50).** But after the sharp rally, the market will probably have to consolidate and there will be some better entry opportunities.

## Some drivers for flight to safe-haven could fade

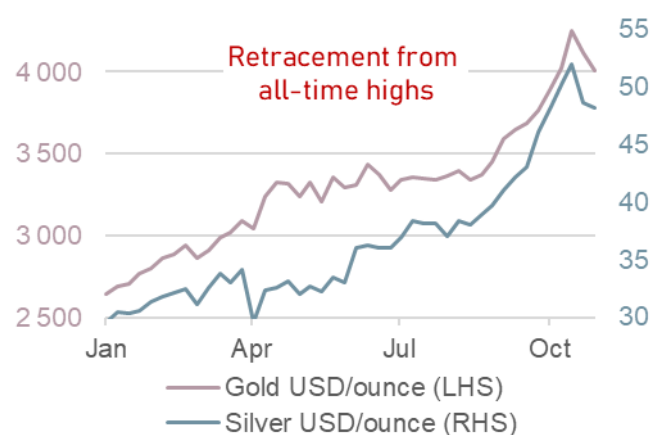
Some drivers for the flight to safe-haven investments could fade in the coming weeks. Trade tensions could ease if President Trump and Xi Jinping were to sign a trade deal at the end of this month. There are rumours that the US government shutdown could end soon. After the truce in Gaza, President Trump is working on a resumption of negotiations between Ukraine and Russia. If the respective peace processes for Gaza and Ukraine move in the right direction, it could reduce geopolitical uncertainties. And with regard to fears of undermining the Fed's independence, political pressure will ease in the near term because the Fed plans to cut rates anyway. We believe that the prospect of lower Fed rates is already sufficiently priced in.

**US RETAIL INVESTORS HAVE BOUGHT THE GLD GOLD ETF, BUT FAR FROM 2020 PEAK**



Source: BNP Paribas, Bloomberg.

**AFTER IMPRESSIVE PERFORMANCE SINCE 2024, TIME FOR CONSOLIDATION**



Source: BNP Paribas, Bloomberg

## Summary of our main recommendations, by asset class

	Current Recom	Prior Recom	Segments	We like	We avoid	Comments
EQUITIES	+	+	Markets	UK, Japan, China, Brazil		Positive view on Equities justified by strong liquidity, lower rates, positive earnings results, share buybacks. Valuations fair in most countries ex-US.
			Sectors	Global Health Care, Utilities, EU Industrials, EU Materials, EU Banks	EU Oil & Gas, Consumer Staples	<b>Banks</b> should benefit from improving loan demand, elevated Net Interest Margins & loan loss provisioning. <b>Health Care</b> 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	We stay Positive on UK government bonds and US TIPS		We change our view from Positive to Neutral on US and EU core government bonds and we reduce recommended maturities to short-term. We stay Positive on UK government bonds and US TIPS. 12-month US 10Y yield target 4.25%, German 10Y bund yield 2.75%, UK 10Y gilt yield 4.4%.
	+	+	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	Local currency		Positive on EM bonds in local currency. Good fundamentals remain in place, further USD weakness expected.
CASH	-	-				Two further cuts will take the Fed Funds rate to 3.75% by end-2025, 2% maintained for the ECB deposit rate.
COMMODITIES	=/+/-	+/+/-		Copper (+)	Oil (-)	Oil (-) Weaker global oil demand and the prospect of a steady reduction in OPEC+ production cuts are forcing Brent prices into the USD 60-70 range. Base metals (+) The outlook for the manufacturing sector is helped by rising demand and constrained supply. Gold (=) Downgrade to Neutral after strong performance. 12-month target = USD 4,400, Silver (=) USD 55 12m target.
FOREX			EUR/USD			Our EUR/USD 12m target is USD 1.24.
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				Global Macro, Long-Short Equity, Event Driven		We upgrade Event Driven to Positive and downgrade Relative Value to Neutral.
INFRASTRUCTURE	+	+		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	2.0	1.8
Japan	0.1	1.3	0.6
UK	1.1	1.3	1.0
Switzerland	1.0	1.5	1.0
<b>Eurozone</b>	<b>0.8</b>	<b>1.3</b>	<b>1.4</b>
Germany	-0.5	0.3	1.4
France	1.1	0.7	1.1
Italy	0.5	0.6	1.1
<b>Emerging</b>			
China	5.0	5.0	4.5
India*	6.5	6.2	6.4
Brazil	3.4	2.3	1.6

\* Fiscal year  
Source : BNP Paribas - 27/10/2025

BNP Paribas Forecasts			
CPI Inflation %	2024	2025	2026
United States	2.9	2.8	3.1
Japan	2.7	3.2	2.3
UK	2.5	3.4	2.6
Switzerland	1.1	0.2	0.8
<b>Eurozone</b>	<b>2.4</b>	<b>2.1</b>	<b>1.8</b>
Germany	2.5	2.2	1.3
France	2.3	1.0	1.2
Italy	1.1	1.7	1.5
<b>Emerging</b>			
China	0.2	0.0	1.0
India*	4.7	3.2	4.4
Brazil	4.4	5.0	3.8

\* Fiscal year  
Source : BNP Paribas - 27/10/2025

	Country	Spot 30/10/2025	Target 3 months	Target 12 months
Against euro	United States	EUR / USD 1.17	1.16	1.24
	United Kingdom	EUR / GBP 0.88	0.87	0.87
	Switzerland	EUR / CHF 0.93	0.94	0.94
	Japan	EUR / JPY 177.21	168	174
	Sweden	EUR / SEK 10.91	11.00	10.70
	Norway	EUR / NOK 11.62	11.60	11.30
Against dollar	Japan	USD / JPY 151.93	145	140
	Canada	USD / CAD 1.39	1.38	1.35
	Australia	AUD / USD 0.66	0.66	0.68
	New Zealand	NZD / USD 0.58	0.60	0.60
	Brazil	USD / BRL 5.35	5.40	5.70
	India	USD / INR 88.21	88.0	88.0
	China	USD / CNY 7.10	7.10	7.10

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

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