BNP PARIBAS
WEALTH MANAGEMENT

The bank for a changing world

FEBRUARY 2025

Investment Navigator
Asia Edition

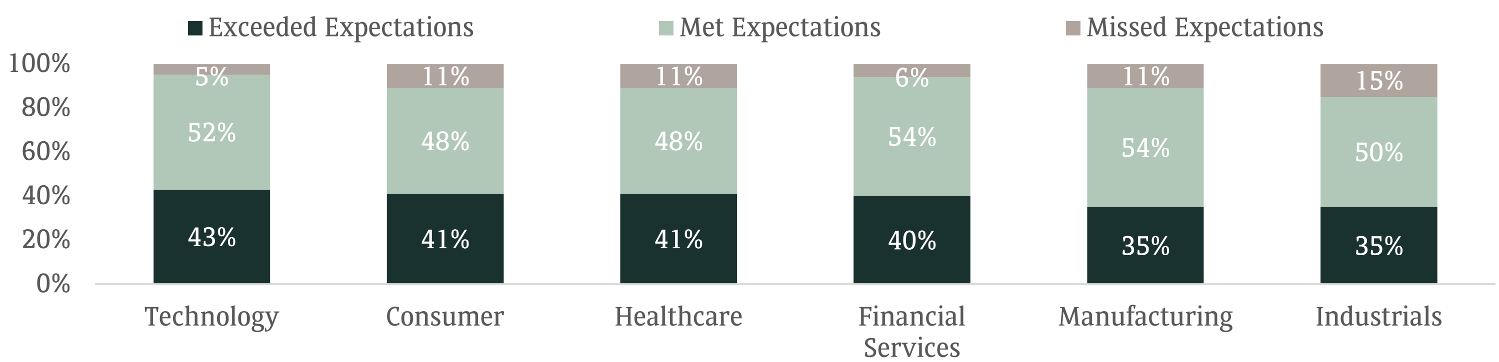
How is the AI race shaping up? (1/2)

WHAT IS THE RETURN ON INVESTMENT ON AI?

The launch of open source DeepSeek caused a huge sell-off in semiconductor hardware names in January 2025. The bigger story here is the commoditisation of AI – that more and cheaper AI models and algorithms provide a more cost-effective route for companies to embed AI-enabled processes into their businesses.

There is a growing possibility of an AI capex slowdown in 2025, particularly when we compare to the 50-60% growth seen in 2024. Recently, we have seen some Magnificent 7 companies upgrade in their capex outlook, even after some disappointments in cloud revenues estimates. The crucial question going forward is regarding the ROI on AI. This has echoes of the Metaverse narrative a couple of years back. Hence, these companies are under pressure to deliver revenue growth in coming quarters to justify the capex spend.

MOST COMPANIES ARE SEEING SOLID ROI* ON GEN-AI



Source: AlphaWise, Morgan Stanley Research, BNP Paribas WM, as of 31 January 2025
Past performance is not indicative of current or future performance.
**ROI = Return on Investment*

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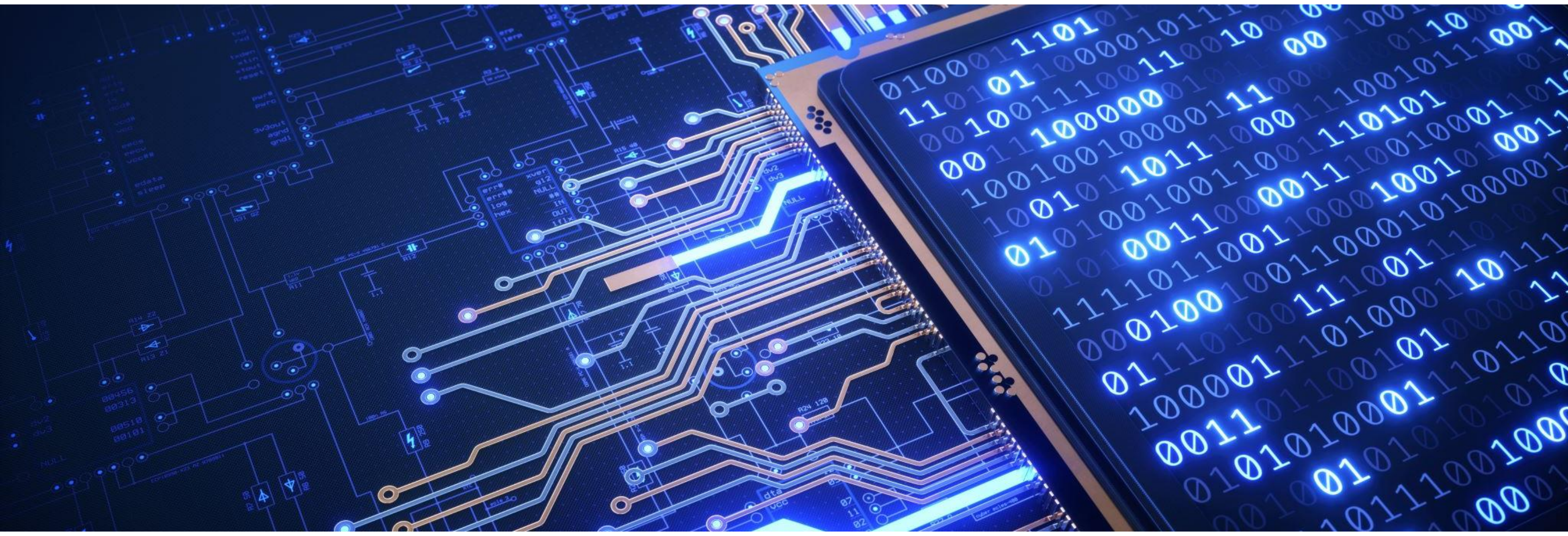
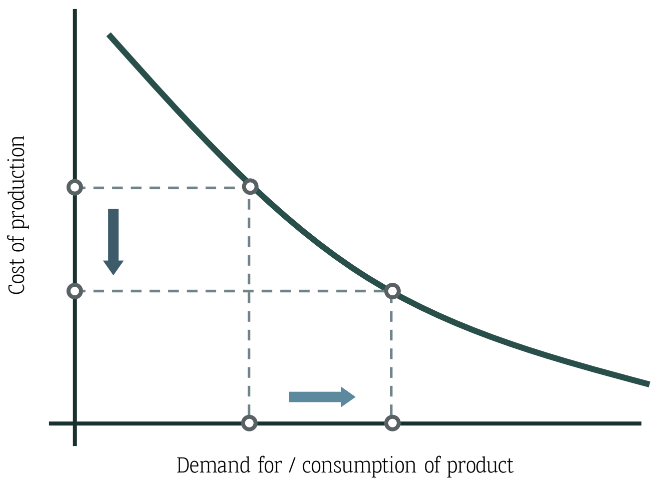


How is the AI race shaping up? (2/2)

JEVONS PARADOX



Source: Jevons, W.S. (1865). The Coal Question; An Inquiry Concerning the Progress of the Nation, and the Probable Exhaustion of Our Coal Mines. London: Macmillan and Co.

According to the Jevons Paradox, as technological improvements increase the efficiency of resource use, the overall consumption of the resource tends to increase (not decrease) as demand increases sharply. Cheaper leading-edge AI models should accelerate their adoption in the wider economy, driving productivity gains across sectors and driving even faster growth in electricity demand. Whether this occurs will be keenly watched by markets.

WHO ARE THE WINNERS FROM THIS AI DRIVEN NARRATIVE?

The big winners from this next stage in the AI development cycle will not necessarily be the Magnificent 7, but rather companies that can drive significant AI-related productivity benefits in the financial, health care and software sectors.

AI commoditisation should also spur the development of a new wave of businesses and industries, as seen with the widespread adoption of mobile internet and smartphones. With a possible drop in training costs and a movement to inference and reasoning and super agents could favour software over hardware as well within technology.

Revenge of the Tariff Man!

HOW ARE TRUMP'S TARIFFS AFFECTING THE MARKETS?

The announcement of higher US trade tariffs confirms our key assumption that Donald Trump's campaign promises should be taken literally and seriously. In fact, the announced increases in tariffs were even larger and came faster than we had predicted. The most recent being talked about is a 25% tariff on all imports of steel and aluminium into the US, as well as new reciprocal tariffs. We had initially thought that tariffs would be hiked gradually.

In our view, President Trump announcement of such high tariffs is either to a) put maximum pressure on upcoming negotiations, or b) to earmark the revenues to reduce the budget deficit by rerouting supply chains.

Interestingly, President Trump's opening salvo with regards to tax has resulted in early wins with regards to illegal immigration and fentanyl with Mexico and Canada enacting measure to combat these areas. At the same time, the US admin will now engage both countries with regards to trade issues, and that will be key for markets.

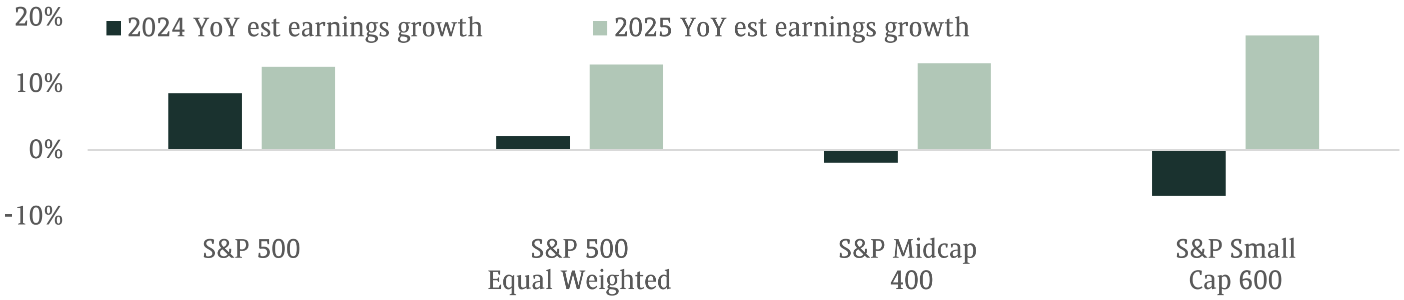
Tit for tat tariffs can be expected, albeit the recent "pause" on tariffs will allow time for further negotiations with the respective countries. Furthermore, the first stage of tariffs enacted on China was only 10%, much lower than expected. Overall, we believe a moderate level of tariffs are more likely for the present. If the announced level of tariffs are ultimately maintained (not our base case), we expect a -0.4% drag on the US economy and +0.8% on core inflation, with Mexico and Canada likely slipping into recession. Hence this is precisely why a negotiated outcome is much more likely.

AMIDST THE VOLATILITY, WHERE CAN WE FIND OPPORTUNITY?

Given our base case of moderate tariffs or trade deals to avoid tariffs, any growth and inflation impacts should be relatively limited. Nevertheless, risks remain.

Hence we continue to advocate diversifying across sectors and markets globally. We remain overweight EU financials, and global health-care, industrials, and materials. Technology is an underperforming sector year-to-date in the S&P 500. For example, European banks have outperformed the Magnificent 7 since January 2022. Furthermore, we favour Japan, UK, and China equities.

EARNINGS GROWTH GAP CONVERGENCE



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

Overview of our CIO Asset Allocation for February 2025

	Views Current	Views Prior	Constituents	We like	Comments
EQUITIES	+	+	Markets	US, UK, Japan, Brazil, China, South Korea, Singapore & Indonesia	■ We **like US and Japan small-mid caps**
			Sectors	Financials, Materials, Industrials, Healthcare	■ We like US banks, cyclicals and energy infrastructure.
			Styles/ Themes	Megatrend Themes	■ Circular economy, electrification, security & income themes.
BONDS	=	=	Govies	US, US TIPs, UK	■ We upgrade **US, US TIPs and UK government bonds to positive** ■ Our **12-month target for the US 10-year Treasury yield remains at 4.25%.** We **revised up 2-year yield target to 4.25%.**
	+	+	Segments	Investment grade	■ We remain **positive on US (increase maturity preference up to 7 years) and Euro** (up to 10-year maturity) **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 12-month target of $3000/oz** ■ Oil – Negative with Brent's target range to $60-70. ■ Base metals – **Positive esp copper**
FOREX			USDJPY EURUSD		■ 3-month & 12-month targets both at 150 ■ 3-month target at 1.00 & 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	2.4	4.1	2.9	3.0
	Japan	1.5	-0.2	0.6	3.3	2.7	2.9
	Eurozone	0.5	0.8	1.1	5.4	2.4	2.1
	UK	0.4	0.8	1.1	7.3	2.5	3.1
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	2.5	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 31 January 2025
** IMF data and forecasts as of 31 January 2025*

GROWTH

- We revised up our 2025 US GDP growth forecast from 2.1% to 2.4%. Solid wage income and employment growth, wealth effects, signs of post-election optimism in business and consumer surveys are likely to keep activity resilient.

- A sustained period of elevated tariffs is not our base case scenario. History suggests large tariffs generate higher inflation and dampen economic growth. The cost for Trump and the Republican party could be very high as they could risk losing in the 2026 mid-term elections.

INFLATION

- Despite tariffs, US inflation rates can ease further in the short term as i) oil & gas prices, ii) housing costs, and iii) wage growth should all moderate in the months ahead.

- We expect inflation to remain low enough for central banks in the US, Europe and China to continue to lower their reference interest rates, albeit at a slower pace.

Equities

POSITIVE NEUTRAL NEGATIVE

OVERALL GLOBAL: POSITIVE

Positive	Neutral	Negative
COUNTRY		
US UK Japan Emerging Mkt	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

- **DeepSeek disruption:** DeepSeek is potentially a game changer for the AI landscape. The latest development challenges the market consensus that AI supremacy relies on vast capital expenditure on tech infrastructure and will be dominated by a few US tech giants. **China techs are key beneficiaries** as DeepSeek proves that China's private sector remains innovative and could potentially democratise computing and change the global AI ecosystem.

- **Solid US earnings results**: US earnings could grow by more than 10% YoY in 4Q 2024. Financials are particularly strong, and **large US banks remain our high conviction**.

		1-month (%)	YTD (%)	2024 (%)	Forward PE (x)	Trailing PB (x)	Dividend Yield (%) 2025f	EPS Growth (%) 2025f	EPS Growth (%) 2026f	ROE (%) 2025f
Developed	US	3.0	3.0	23.4	22.4	5.5	1.5	13.9	14.2	17.8
	Japan	0.1	0.1	18.5	14.4	1.5	2.2	6.3	10.3	9.8
	Eurozone	7.2	7.2	6.8	13.7	1.9	3.1	8.2	11.2	12.2
	UK	6.0	6.0	5.3	11.8	1.9	3.6	7.1	10.2	12.2
	Asia Ex-Japan	0.6	0.6	9.8	12.8	1.8	2.6	12.2	12.9	11.7
North Asia	China	0.8	0.8	16.3	10.1	1.4	3.0	8.9	11.8	11.6
	China A-shares	-3.0	-3.0	14.7	12.1	1.6	3.2	9.5	9.6	10.7
	Hong Kong	-2.0	-2.0	-4.7	11.6	0.9	4.3	7.2	7.8	7.2
	South Korea	4.9	4.9	-13.7	8.7	1.0	2.5	15.2	15.5	10.2
	Taiwan	3.0	3.0	40.9	16.8	3.5	2.2	18.4	15.8	16.7
South Asia	India	-2.5	-2.5	14.3	21.4	4.1	1.2	17.3	15.0	14.4
	Indonesia	0.2	0.2	-12.3	11.2	2.1	5.6	3.6	8.4	15.2
	Malaysia	-5.1	-5.1	12.8	13.1	1.4	3.9	7.1	7.6	9.3
	Philippines	-8.9	-8.9	1.6	9.9	1.7	2.3	9.3	10.4	13.8
	Singapore	0.8	0.8	20.0	13.7	1.8	4.8	5.7	7.2	10.7
	Thailand	-4.5	-4.5	-1.6	15.7	1.7	3.3	12.9	9.4	9.4

Source: MSCI indices in local currency terms, Bloomberg, Datastream, BNP Paribas (WM), as of 31 January 2025

Fixed Income

POSITIVE NEUTRAL NEGATIVE

OVERALL GLOBAL: NEUTRAL		
Positive	Neutral	Negative
▲ US Treasuries ▲ UK Gilts ▲ US TIPs Investment Grade	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	0.1	0.1	4.5	5.4
	Asia Local Currency Bond	-0.1	-0.1	1.0	4.1
	China	0.0	0.0	5.7	5.4
	Hong Kong	0.1	0.1	4.7	5.2
	India	0.5	0.5	7.4	6.1
	Indonesia	-0.1	-0.1	0.8	5.6
	Singapore	0.2	0.2	3.0	4.9
	South Korea	0.2	0.2	4.4	5.0
	Philippines	-0.2	-0.2	1.4	5.5
Other Regions	US 10-year Treasuries	0.0	0.0	0.1	4.5
	US Investment Grades (IG)	0.0	0.0	1.3	4.9
	US High Yield (HY)	0.8	0.8	8.2	7.3
	Emerging Market USD Bond	0.1	0.1	5.2	5.8

Source: Barclays indices, Bloomberg, BNP Paribas (WM) as of 31 January 2025

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

- **Rate forecasts**: We expect two 25bp rate cuts in the US this year, slightly more than the market pricing, thus a terminal rate of 4%. In the Eurozone, we anticipate three more 25bp rate cuts and a terminal rate of 2%, which is similar to the market pricing.
- **Govies**: We **take advantage of the recent selloff 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.
- **Corporate IG:** We stay positive given 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 HY:** The average spread is low, which limits spread compression upside. The asset class remained however supported by high carry and solid demand. Dispersion should increase, making credit selection key.

Forex & Commodities

POSITIVE NEUTRAL NEGATIVE

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

COMMODITIES		
Positive	Neutral	Negative
Gold Base metal	Oil	-

- **EUR:** We continue to expect the ECB to cut rates more aggressively than the Fed, due to the weaker economic backdrop and in light of looming tariffs. The higher interest rate differential would be in favour of the USD relative to the Euro. 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.**
- **JPY:** The BoJ raised rates by 25bps as expected to 0.50% in January. We continue to expect more hikes, both this and next year. However, there should be limited upside for the Yen given our US terminal rate assumption. **Both our USD/JPY 3- and 12-month target are at 150. This suggests a moderate upside for the JPY.**
- **GOLD: We keep our positive view and maintain our 12-month target of $3000/oz.** Prices should be supported by central banks' rate cuts and accumulation, along with upside risk for inflation, and increased trade tensions.
- **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.

Forex Forecasts

		Spot	3-month		12-month	
		As of 31 Jan 2025	View	Target	View	Target
Developed	USD Index*	108.37	+	110.9	+	108.9
	Japan	154.9	+	150	+	150
	Eurozone	1.040	-	1.00	-	1.02
	UK	1.243	-	1.20	-	1.23
	Australia	0.624	+	0.66	=	0.64
	New Zealand	0.563	+	0.60	=	0.60
	Canada	1.448	=	1.45	=	1.40
Asia Ex-Japan	China	7.265	=	7.40	=	7.40
	South Korea*	1,453	+	1,320	+	1,290
	India	86.62	+	84.0	=	84.0
	Indonesia*	16,300	=	16,400	=	16,600
	Malaysia*	4.458	=	4.54	=	4.57
	Philippines*	58.37	=	59.3	=	59.8
	Singapore*	1.355	=	1.38	=	1.39
	Thailand*	33.68	-	35.3	-	35.8

Source: BNP Paribas (WM) as of 31 January 2025
**BNP Paribas Global Markets forecast as of 31 January 2025*

Note: + Positve / = Neutral / - Negative

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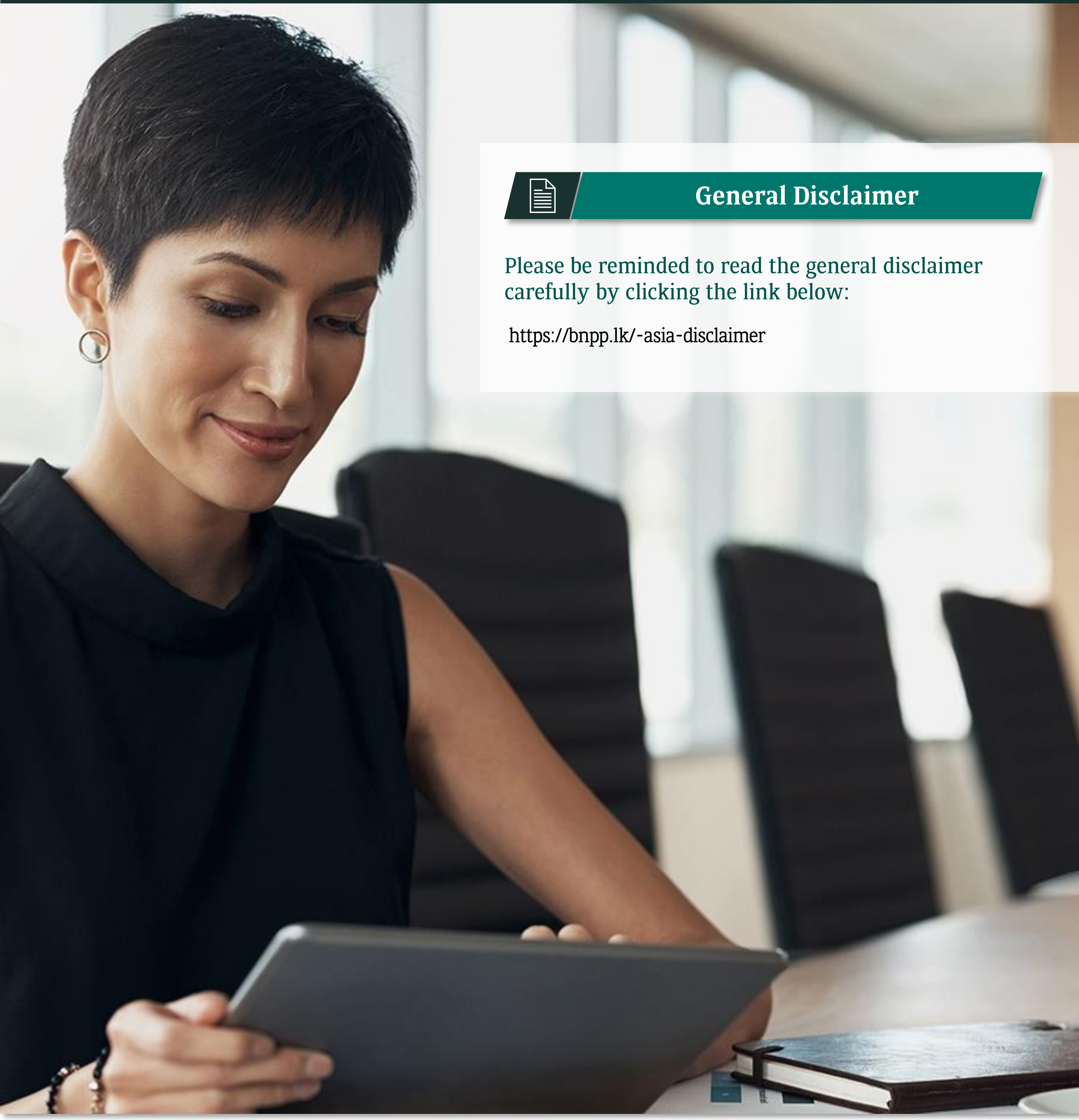

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