C.I.A. NETWORK

Asset Strategy in Brief

January 2025

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WEALTH MANAGEMENT

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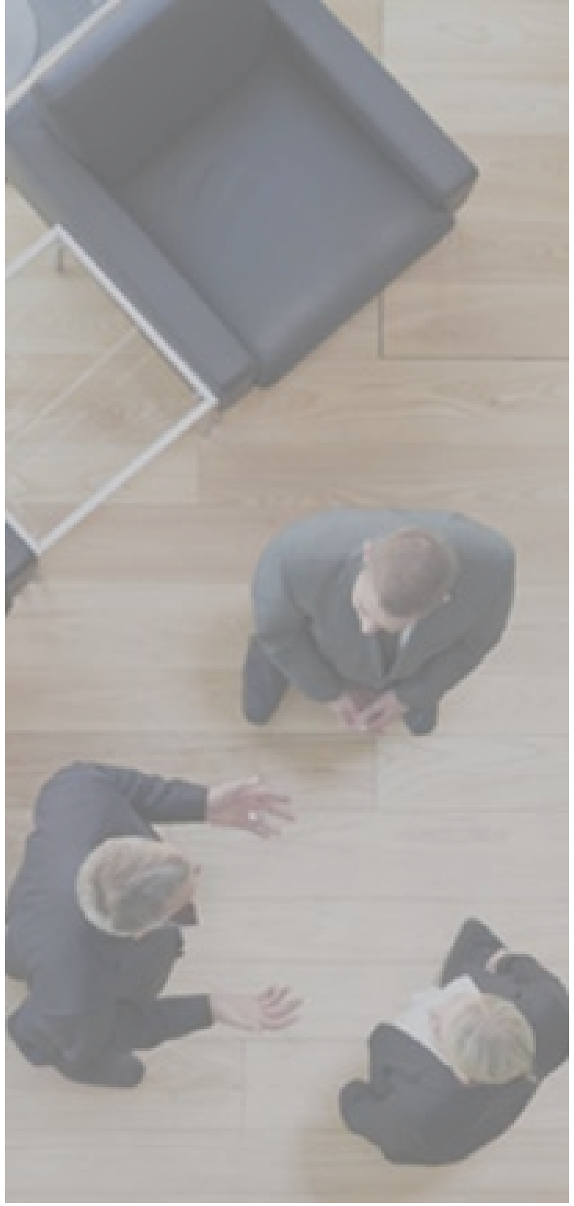

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Macro, market views

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Macro, Market Views

	Macro		– US economic data came out broadly better-than-expected especially on consumer sentiment. The manufacturing sector remains the weak point but saw some improvement. Initial jobless claims suggest slower hiring, not layoffs. – In the eurozone, consumer confidence remains on an upward trend. The main worry is the manufacturing sector, especially in Germany. The service sector is holding up somewhat better. China and global trade could bring positive surprises.
	Rates	=	– We revise our estimate of the terminal rate in the US to 4% vs 3.75% previously on the back of rising inflation expectations and a strong economy. We keep 2% as our base case for the ECB terminal rate, that could be reached in September 2025.
	Credit	+	– IG spreads are low but should remain low as long as growth holds and technicals stay strong. All-in yields are high. – We prefer short maturities in the US and up to 10 years in the eurozone.
	Equities	+	– The key risks are that the market starts to reprice growth fears with central banks being perceived as "behind the curve". – Favour US, UK, Japan. In Asia prefer China, Singapore, South Korea, Indonesia. – We like Mid-/Small-Caps. Positive on Health Care, Industrials and Materials such as Metals. We also like Financials and REITs. – We prefer investment themes like clean water, copper miners, electricity infrastructure, the circular economy, and deep value markets. – We downgraded Mexico to underperformance last month.
	Real Estate	=	– Lagged impact from higher interest rates to fade. We see European real estate prices stabilising, with rental yields now more attractive. – Industrial/logistics exposure preferred for healthy yields, higher expected rental growth on robust underlying demand growth. – Listed REIT in the eurozone exposure preferred given low price/book values, 4%+ dividend yield
	Commodities	+	– Gold: Positive view as we expect the upward trend to continue, supported by further rate cuts and gold reserves accumulation, combined with the fear for Trump's inflationary policy, high fiscal deficits and government debt, and a possible trade war. Gold 12m target remains USD 3000/ounce – Maintaining negative view on Oil, with a lower target range of USD 60-70 on weaker global oil demand, still substantial non-OPEC oil & gas supply and decision of OPEC+ to postpone the gradual unwinding of its production cuts.
	FX		- USD/BRL: We change our 3-month target to 5.80 but maintain our 12-month target at 5.80 - EUR/CHF: We maintain our 3-month target at 0.94 but change our 12-month target to 0.94 (value of one €). - USD/CNY: We change our 3- and 12-month target to 7.40 (value of one USD).

Key macro & markets forecasts

	GDP Growth %		Inflation %		Central Bank Rates %				Key market forecasts		
	2024e	2025e	2024e	2025e		Now	3M	12M		Now	12M
US	2.8	2.1	2.9	2.9	US Fed Funds Rate	4.50	4.50	4.00	US 10Y yield %	4.62	4.25
Eurozone	0.8	1.0	2.4	2.1	ECB Deposit Rate	3.00	2.50	2.00	Euro 10Y yield %	2.44	2.25
Japan	-0.3	0.6	2.7	2.7	Bank of Japan Policy Rate	0.25	0.25	0.75	UK 10Y Yield %	4.63	4.00
UK	0.9	1.4	2.5	3.1	Bank of England Base Rate	4.75	4.50	3.75	S&P 500	5975	n/a
China	4.9	4.5	0.3	0.8	China MLF 1Y Interest Rate	2.00	1.40	1.10	Euro STOXX 50	5018	n/a
									Oil Brent USD/bbl	76.87	60-70
									Gold USD/oz	2659	3000

Source: BNP Paribas WM. As at 7 January 2025

Asset Allocation

Allocation changes this month:

- Equities: We downgraded Mexico to underperformance last month.
- Bonds: We expect 2 rate cuts from the Fed this year (vs. 3 previously). We thus revise our terminal rate to 4% and our US 2-year yield target to 4.25%.
- FX : EUR/CHF 3-month target is maintained at 0.94 but 12-month target is changed to 0.94 (value of one EUR). USD/BRL 3-month target is changed to 5.80 but 12-month target is maintained at 5.80. USD/CNY We change our 3-month and 12-month target to 7.40 (value of one USD).
- Commodities: We maintain our Gold target at USD 3000/oz. For oil, we are negative, with a lowered target range of USD60-70.

Outlook Summary

	Very underweight	Underweight	Neutral	Overweight	Very Overweight
Equities				+	
Government Bonds			=		
Corporate Credit				+	
Real Estate			=		
Alternatives				+	
Cash		-			

02

Bonds

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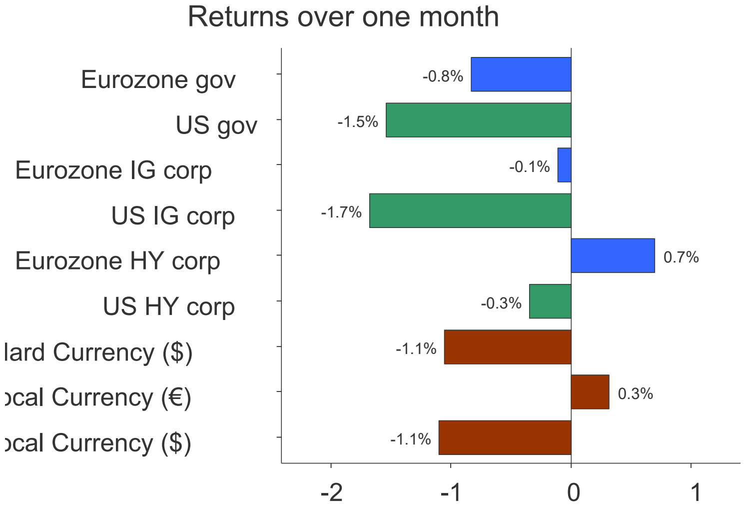
Fixed Income at a glance

2024 closed with a strong performance from sub-asset classes such as corporate bonds and Emerging Market bonds, driven by spread compression. Valuations have become either tight or very tight in various parts of the fixed income market, but investors can expect high carry to be a significant driver of total returns in 2025.

We see value in short-dated Treasuries and EUR/USD IG corporate bonds.

10-year yield	19/12/2024	12-month target
US	4.57	4.25
Germany	2.31	2.25
UK	4.58	4.00



Source: LSEG Datastream, Bloomberg and JPM indices, 27/12/2024

Central Banks

We now expect 2 rate cuts from the Fed this year (vs. 3 previously). We thus revise our terminal rate to 4%. For the ECB, we are comfortable with our estimate of a terminal rate of 2% in September 2025, implying 4 rate cuts of 25bp this year.

Government Bonds

We remain tactically Neutral on government bonds amid risk of higher bond yields in the US in the short term. Structurally, US government bonds remain attractive, with yields at their highest levels in 17 years. We are Positive on US short-term Treasuries.

Peripheral bonds

We are Neutral on peripheral bonds. Spreads are low and do not offer much potential to tighten further. Asset managers are, on average, already overweight on peripheral bonds.

Corporate Investment Grade (IG) Bonds

IG spreads are low but should remain low as long as growth holds and technicals stay strong. All-in yields are high. **We prefer short maturities in the US and up to 10 years in the eurozone.**

Corporate High Yield (HY) Bonds

Valuations are tight at the index level (notably driven by CCCs outperformance) but dispersion is elevated. We stay Neutral given high carry and favourable technicals.

Emerging Market (EM) Bonds

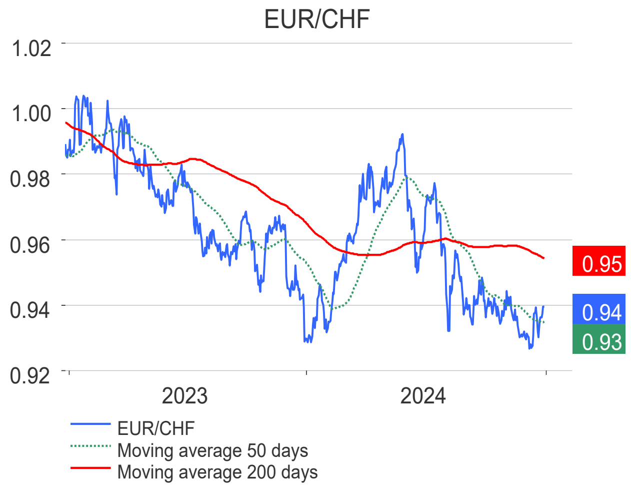
We are Neutral on EM bonds given the risks ahead (trade barriers, stronger USD, high-for-longer US yields) and tight valuations. Fundamentals remain however in place.

03

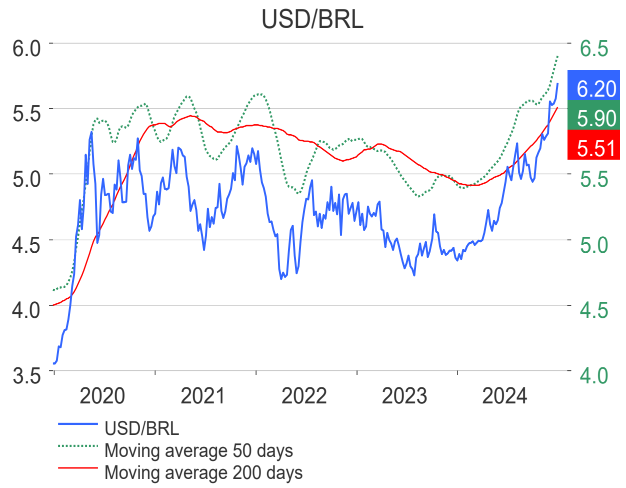
Currencies

Currencies at a glance

1. **EUR/CHF: The Swiss National Bank delivered an unexpectedly large 50bp cut at its December meeting, taking the policy rate to 0.5%.** The evolving policy landscape, alongside the improving economic outlook relative to the eurozone with a wide current account surplus, suggests only a moderate depreciation potential for the CHF. We maintain our EUR/CHF 3-month target at 0.94 but change our 12-month target to 0.94 (value of one EUR).
2. **USD/BRL: In Brazil, The central bank raised its policy rate by 100bp, bringing the Selic rate to 12.25% on 11 December.** Given a weakening economy, higher inflation expectations, the potential impact of US tariffs and interest rates continuing to rise significantly, **we change our USD/BRL 3-month target to 5.80 but maintain our 12-month target at 5.80.**



Source: LSEG Datastream, 30/12/2024



Source: LSEG Datastream, 27/12/2024

>> TARGET 12M EUR/USD: 1.02

The Fed and ECB both delivered a 25bp cut as expected, taking their policy rate to 4.5% and 3% respectively. We expect the Fed to deliver fewer rate cuts with a terminal rate at 4% (by September 2025). In the eurozone, we look for a terminal rate of 2% (September 2025). Our 3-month target is 1.06 and our 12-month target 1.02 (value of one EUR).

>> TARGET 12M USD/JPY: 150

The BoJ kept the policy rate unchanged at 0.25% in December. The JPY should be less impacted by trade policies than other currencies. Moreover, the currency could be more sensitive to a higher US terminal rate because it could widen the US–Japan rate differential compared with previous expectations. We see limited upside. **Our USD/JPY 3- and 12-month target is 150 (value of one USD).**

>> TARGET 12M USD/CNY: 7.40

The central bank left the policy rate unchanged in December. The US tariff policy is the key risk for the economy and the currency. Moreover, the central bank let the USD/CNY trade higher. The move is consistent with our view that US tariffs on China could lead to more FX adjustments. **We change our 3- and 12-month target to 7.40 (value of one USD).**

>> TARGET 12M EUR/GBP: 0.83

The Bank of England held the policy rate at 4.75% on 19 December. It continues to adopt cautious and data-dependent guidance. Rate differentials should continue to be a source of support for the GBP. **We therefore see the potential for the GBP to remain strong against the euro. Our 3- and 12-month target remains at 0.83** (value of one EUR).

>> TARGET 12M EUR/SEK: 11.70

The Riksbank delivered a 25bp cut to 2.5% in December. There is a possibility of another cut over the coming months. Sweden is vulnerable to the implementation of global tariffs. Lower inflation could make the Riksbank more favorable to a weak currency to support Swedish exporters. **Therefore, we change our EUR/SEK 3-month target to 11.60 and our 12-month target to 11.70 (value of one EUR).**

>> TARGET 12M USD/CAD: 1.40

The Bank of Canada cut the policy rate by 50bp to 3.25% on 11 December. The risk for the currency is higher import tariffs. The economic outlook is expected to improve. Indeed, a supportive fiscal stimulus and the upcoming election in 2025 could support the CAD. We **change our 3-month target to 1.40 and our 12-month forecast to 1.38 (value of one USD).**

Forex at a glance

FX FORECASTS EUR

	Country	Spot 05/01/2025		Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1.03	Negative	1.06	Neutral	1.02
	United Kingdom	EUR / GBP	0.83	Neutral	0.83	Neutral	0.83
	Japan	EUR / JPY	161.95	Neutral	159	Positive	153
	Switzerland	EUR / CHF	0.94	Neutral	0.94	Neutral	0.94
	Australia	EUR / AUD	1.66	Positive	1.61	Positive	1.59
	New-Zealand	EUR / NZD	1.84	Positive	1.77	Positive	1.70
	Canada	EUR / CAD	1.49	Neutral	1.48	Positive	1.41
	Sweden	EUR / SEK	11.45	Neutral	11.60	Negative	11.70
	Norway	EUR / NOK	11.70	Neutral	11.60	Positive	11.30
Asia	China	EUR / CNY	7.52	Negative	7.84	Neutral	7.55
	India	EUR / INR	88.26	Neutral	89.04	Positive	85.68
Latam	Brazil	EUR / BRL	6.34	Positive	6.15	Positive	5.92
	Mexico	EUR / MXN	21.26	Negative	22.26	Negative	22.44

Sources: BNP Paribas, LSEG

FX FORECASTS USD

	Country	Spot 05/01/2025		Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1.03	Negative	1.06	Neutral	1.02
	United Kingdom	GBP / USD	1.24	Negative	1.28	Neutral	1.23
	Japan	USD / JPY	157.40	Positive	150.00	Positive	150.00
	Switzerland	USD / CHF	0.91	Positive	0.89	Neutral	0.92
	Australia	AUD / USD	0.62	Negative	0.66	Negative	0.64
	New-Zealand	NZD / USD	0.56	Negative	0.60	Negative	0.60
	Canada	USD / CAD	1.44	Positive	1.40	Positive	1.38
Asia	China	USD / CNY	7.31	Neutral	7.40	Neutral	7.40
	India	USD / INR	85.78	Positive	84.00	Positive	84.00
Latam	Brazil	USD / BRL	6.16	Positive	5.80	Positive	5.80
	Mexico	USD / MXN	20.66	Neutral	21.00	Negative	22.00
EMEA	South Africa	USD / ZAR	18.77	Positive	18.00	Positive	17.50
	USD Index	DXY	115.54	Positive	105.68	Positive	108.77

Sources: BNP Paribas, LSEG

04

Equities

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To know your future, you must know your past

A (not so) fresh start

- **Back to square one? –** As we enter a new year, investors may be forgiven to assume that the clock resets, and we start anew. While it is true that performance is typically measured in yearly increments, it is also important to recognize that context matters. The rise in the S&P 500 in 2024 has been one of the strongest since 1928. In fact, we're observing one of the few periods with the S&P 500 being up >20% for two straight years in a row.
- **Profit growth vs. multiple expansion –** The rally of the last ~ 13 months was supported by a solid growth in corporate earnings. Nevertheless, around half of global equity returns in 2024 were based on an expansion of valuation multiples. We think that this can be explained, at least partly, by a growing optimism regarding lower inflation and a continuation of the rate-cutting cycle. With valuations reaching fair to expensive levels in many markets, profit growth is likely to become the main driver of returns in 2025.
- **Moderating returns –** A (very) strong run itself is – based on past observations – not a good reason to turn bearish. Bulls may take comfort from the fact that bull markets tend to last for almost 6 years. Additionally, the year following back-to-back 20%+ gains (8 occasions since 1950) has produced an average return of 12.3%. At the same time, the third year is often the weakest of a bull market, albeit it is still positive on average.

Main recommendations

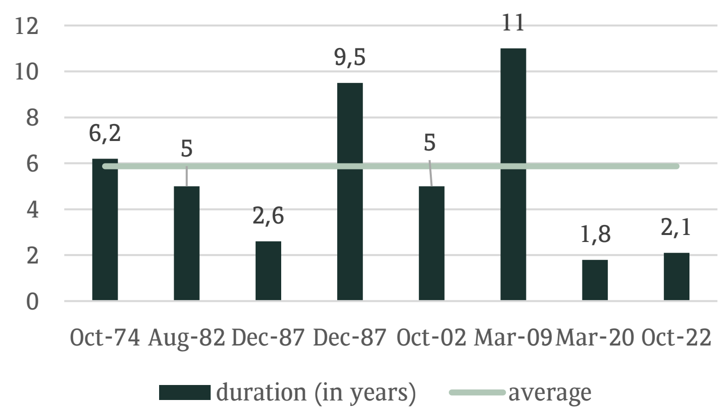
Riding the improving small cap business cycle – As we expect business sentiment and thus capex investments of SMIDs to improve in the US, we see increasing value in companies catering SMIDs as these should benefit via rising revenue potentials.

Diversify away from US Mega Caps though as valuations look stretched. This limits the potential for further multiple expansion. We continue to find value in US SMIDs, certain European equities – especially growth compounders, high US exposure and certain value sectors – as well as in some Emerging Markets.

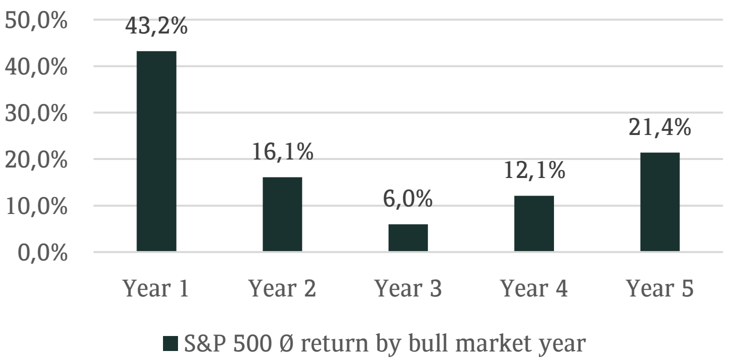
Hasta la vista – Downgrading Mexico to underperformance. The Mexican economic activity is likely to face a negative shock on the back of heightened tariff uncertainty and potential trade frictions. This is adding to certain headwinds from the judicial reform and an unclear financing strategy of the energy reform. We also believe the impact on inflation will be to the upside, preventing Banxico from adopting a more aggressive cutting cycle.

The key risk is that the market starts to reprice growth fears with central banks being perceived as "behind the curve". Increasing policy uncertainty around tariffs could weigh on sentiment too.

THE AVERAGE SPX BULL MARKET LASTS ~ 6 YEARS



THE 3RD YEAR AS INTERMEDIATE LULL



Source: BNP Paribas, Bloomberg, Data since 1950

Asian Equities view

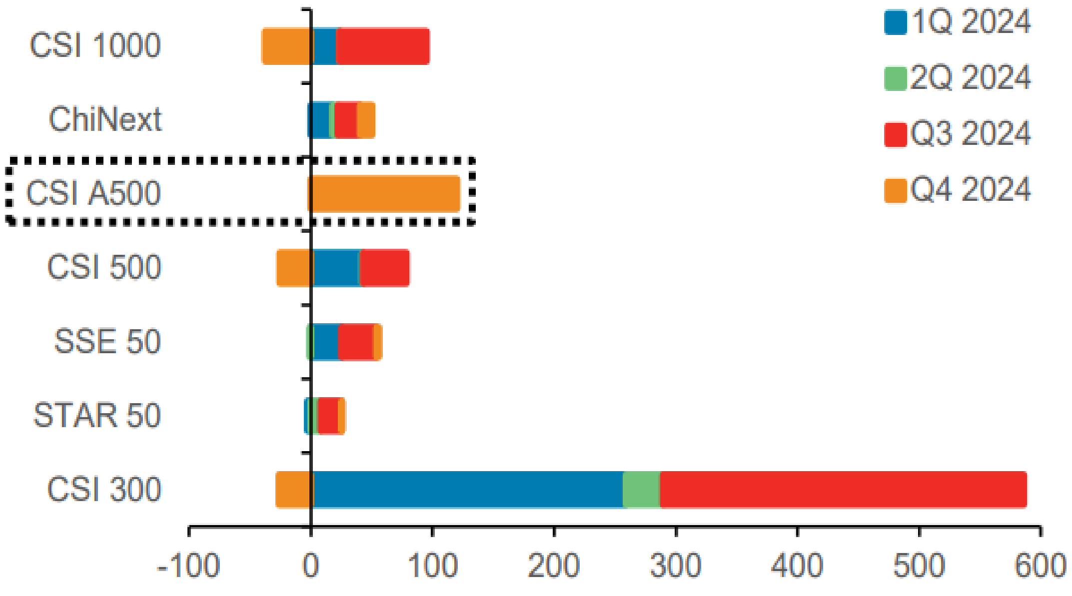
ASIA COUNTRY PREFERENCE

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

- **China** – Market could remain volatile in the short term amid concerns over geopolitical tensions under Trump 2.0. We remain positive in the medium term: (1) There is still room for more fiscal stimulus. The latest Politburo meeting and Central Economic Work Conference reassured the focus on economic growth and prioritized domestic consumption. (2) We prefer A-shares to offshore Chinese equities amid ongoing corporate governance reforms and the swap facility that improves market liquidity and encourages inflows.
- **India** – There was a correction in Q4 2024 due to slowing economic and corporate earnings momentum. That said, we still believe any pullbacks are buying opportunities. BJP's recent landslide victory in Maharashtra should give the government the greenlight to push forward with more capex spending to boost growth in the coming months.

Chinese policymakers are trying to revive sentiment in the domestic equity market with supportive measures

Year-to-date inflow into index-tracking ETFs (RMB bn)



Sources: WIND, BNP Paribas

05

Commodities

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Commodities at a glance

Base metals have corrected since Trump's election, due to fears of a trade war, coupled with still weak manufacturing PMIs and doubts about the effects of China's fiscal stimulus package.

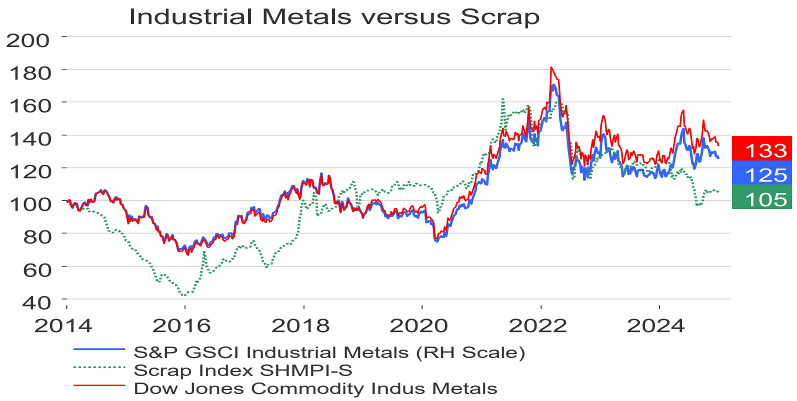
Over full year 2024 iron ore, coal and battery materials declined, but most non-ferrous metals posted slight gains: zinc +13%, tin +15%, aluminum +8%, copper +3%.

The Brent price remained at the low end of its USD70-80 trading range and didn't react too much on the OPEC+ decision to postpone its gradual production increase (now scheduled to start in April 2025).

Gold and silver recently corrected after their strong rally, mainly due to stronger USD and rising bond yields following Trump's election. Over 2024 gold increased 27% and silver 22%.

BASE METALS

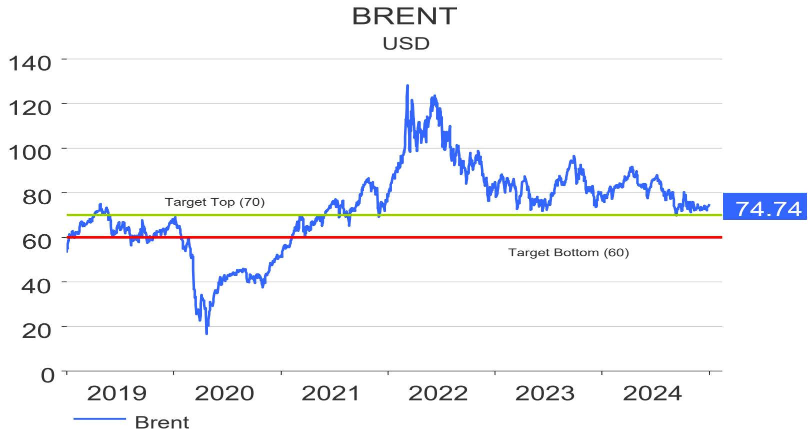
We expect a recovery of manufacturing PMIs in 2025/2026, helped by lower interest rates and Chinese stimulus. Demand growth will also accelerate thanks to energy transition, further EM urbanisation and infrastructure expansion, and will outpace supply growth.



Source: LSEG Datastream, 01/01/2025

OIL

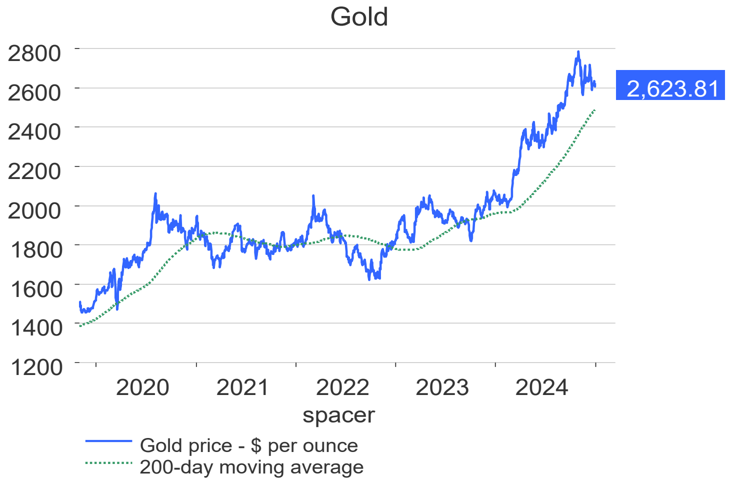
We remain negative, with a target range of USD60-70. Downside risks persist in view of weak demand growth, substantial non-OPEC supply growth and the intention of OPEC+ to increase its production again as from April 2025.



Source: LSEG Datastream, 01/01/2025

GOLD

We expect the upward trend to continue, with major support from central banks' rate cutting cycle and further gold reserves accumulation, coupled with Trump's reflationary policy, and likely concerns about high budget deficits and government debt as well as a possible trade war.



Source: LSEG Datastream, 31/12/2024

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Our position for this month

Evolution of our position from last month

world

06

Alternative Investments

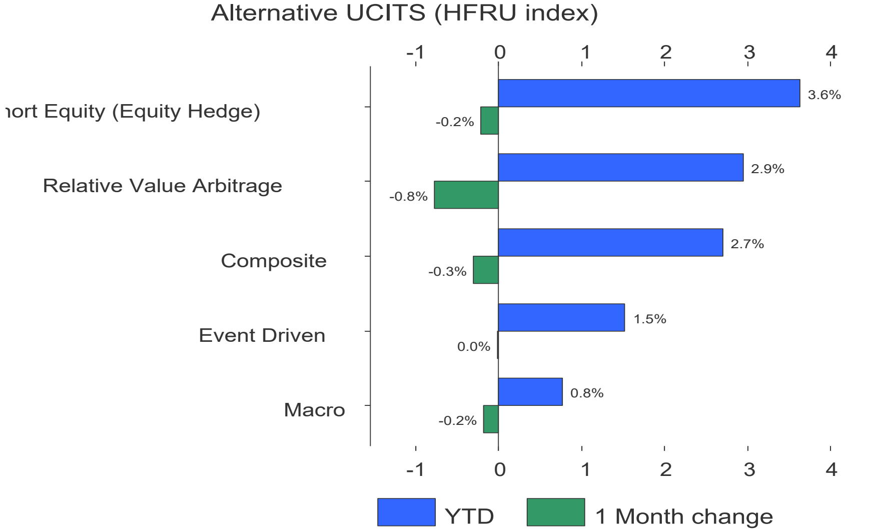
Alternative Investments at a glance

Performances were mostly positive over the past month, especially for macro and relative value.

They also remain positive over the year. Long-short equity remains the best performer year-to-date followed by Relative Value.

Macro remains the worst performer this year.

Positive opinion on Event Driven, Long-Short equity and Relative Value.



Source: LSEG Datastream, 24/12/2024

Global Macro

Neutral: Markets are now contending with the upcoming potentially radical decisions of the new Trump administration. No matter the outcomes, macro managers will be able to adjust to new situations faster, and hopefully even profit from them, whether they be bullish or bearish. In light of this, directional bets remain more challenging than relative value trades.

Event Driven

Positive: With spreads still at fairly elevated levels following a challenging year, 2025 should provide a quite favourable backdrop to M&A arbitrage. Regulatory deal blocking is likely to decrease with the Trump appointments in the US Agencies, even if some specific deals may be blocked by the new administration for geopolitical or other vested interest reasons. New distressed investment opportunities are bound to arise from higher funding costs with the "maturity wall" approaching.

Long/Short Equity

Positive: Market breadth has improved recently after historical outperformance concentrated in the "magnificent seven". Intra market equity dispersion is back at historically high levels, with a very wide gap between expensive and cheap stocks, paving the way for better long and short stock-picking opportunities.

Relative Value

Positive: a combination of resilient growth, moderating inflation and stable to lower policy rates remain supportive. Nonetheless, the challenge to additional Fed cuts with Trump's programme, and potentially disappointing macro data could bring volatility in credit markets. Credit dispersion may increase further as high yield companies react to a higher rate environment and the maturity wall remains high in 2025.

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