JANUARY 2025

Investment Strategy Focus

Temper 2025 expectations

Summary

1. **Strong momentum in US, Japanese, German stocks:** the S&P 500, Nikkei 225 and DAX stock indices all returned 3%-6% over the last 2 months of 2024, completing strong 2023-24 gains. We remain positive on stocks globally, with the US and Japan our preferred regions.

2. **More central bank rate cuts due in 2025:** weakening economic activity underline the need for central banks to cut benchmark rates further in 2025, led by the ECB in Europe. Interest rate markets now expect the ECB deposit rate to fall below 2% (our 12-month target) by end-2025.

3. **Higher US bond yields give income opportunities:** the US 10-year bond yield has risen 0.9% since mid-September to 4.5% today. With US economic momentum faltering, buying longer-dated US bonds is more attractive. Favour US investment-grade credit, US agency bonds.

4. **Momentum in selected commodities:** despite persistent US dollar strength over Q4 2024, commodities have held up well, led by gold, natural gas, coffee and cocoa. After a strong 2024, gold remains one of our favoured diversifying assets for 2025, with 13% upside to our USD 3000/ounce 12-month target.

5. **Risks – US retail investor euphoria?** Retail positioning in US stocks is extended, judged by sentiment indices and the record aggregate US household positioning in US stocks. For now, momentum favours continued stock exposure, but we watch for any deterioration in earnings.

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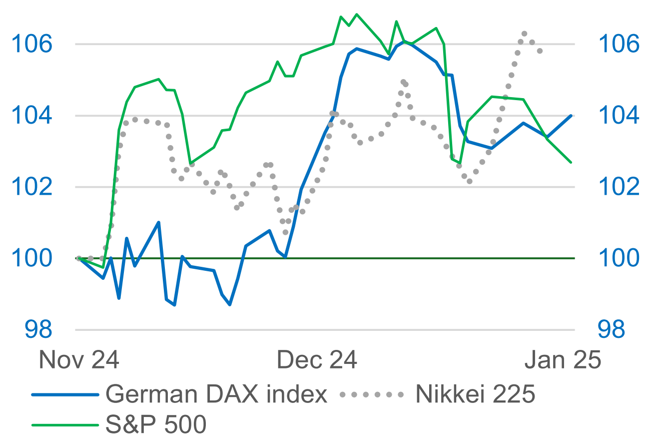
US, JAPANESE, GERMAN STOCKS ALL SURGE OVER THE LAST 2 MONTHS OF 2024



Source: BNP Paribas, Bloomberg

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BNP Paribas Wealth Management

BNP PARIBAS WEALTH MANAGEMENT

The bank for a changing world

Macro, Market Views

Macro			– The Atlanta and St Louis Fed GDPnow activity trackers point to 1.9% annualised GDP growth in Q4 2024. The manufacturing sector remains the weak point. – In the eurozone, consumer confidence remains on an upward trend. The main worry is the manufacturing sector. The service sector is holding up somewhat better. China and global trade could bring positive surprises.
Rates	=		– After a sharp rally in US bond yields, slowing economic momentum suggests that yields can ease in the months ahead. – US, Euro central banks to cut benchmark rates to 4%, 2% by September 2025 – We see the US 10-year yield at 4.25% in 12 months. We keep our 12-month target on the German bund yield at 2.25%.
Credit	+		– We keep a Positive medium-term stance on US and eurozone corporate bonds of high quality (“Investment Grade”). – Prefer below-benchmark maturity in the US and longer-term maturities in 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 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.
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. – Listed REIT exposure preferred given low price/book values, 4%+ dividend yield
Commod-ities	+/-		– Gold: Positive view as EM central banks should continue strategic purchases and Asian households remain buyers. Gold 12m target remains USD 3000/ounce. – Negative stance on Oil, price range for Brent crude oil of USD 60-70 on weaker global oil demand, potentially higher non-OPEC oil & gas supply and an expected reduction of OPEC+ production quota cuts in 2025.
Alternative UCITS/ Private Assets	=		– We favour relative value equity, credit and event-driven funds for their robust risk-adjusted returns at low volatility. – Private equity buyout funds are a preferred private asset subclass, given robust long-term returns and an abundance of public market opportunities
FX			– US Presidential/Congress election result gives the US dollar added upwards momentum on wider expected rate differentials. EUR/USD 3-month target now USD 1.06, 12-month target USD 1.02 (for 1 euro) – USD/JPY targets JPY 150 for both 3- and 12-month horizons.

Difficult to expect a repeat of 2023-24 greatest hits

An ongoing bull market does not mean stellar 2025 returns in prospect

Since September 2022 when this latest stock bull market kicked off, European, Japanese and US indices have returned between 55% and 70% cumulatively to date in local currency (22%-27% annualised). The MSCI All-Country World Index (ACWI) has rewarded investors to the tune of 23% annualised in US dollars over this period, even including the weaker performance from emerging markets.

But after more than 2 years of exceptionally strong stock market performance, it is unreasonable to expect stocks to perform as well for a third year in succession. When looking at long-running bull markets of the past, the third year often marks a pause in stock performance, with modest returns. So, we should not expect 2025 to necessarily follow the same playbook as the previous two years.

Investors should keep in mind that US retail investor optimism is already somewhat euphoric, judging by a host of positioning and sentiment indicators. Valuations of large-cap US stocks have expanded substantially to reach historically high levels (21.6x forward P/E). In fact, this multiple expansion in US large-cap stocks (from 15.5x to 21.6x) has been the principal driver of the US market's 2-year returns.

Hence, we retain a modest outlook on stock returns for the 12 months ahead, expecting single-digit returns for global stocks.

The best bond market has been China!

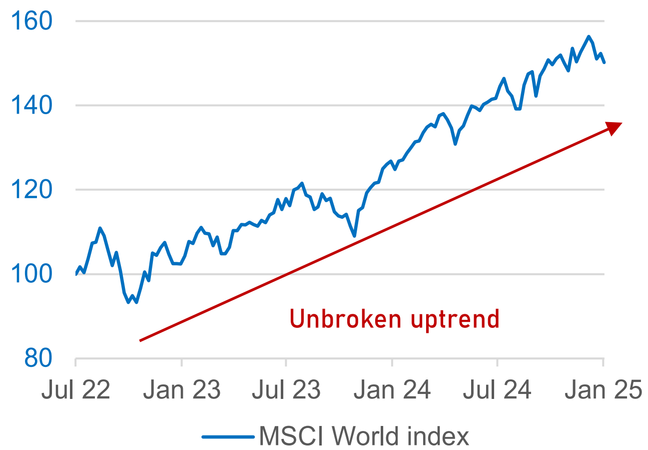
In a context where major central banks (ex Japan) are cutting benchmark interest rates in a more-or-less coordinated fashion, it is surprising to see that US 10-year Treasury bond yields have risen sharply since September, since when the Federal Reserve has reduced its benchmark rate by 1%. Even in Europe where the growth dynamic is much weaker, long-term sovereign yields have hardly fallen since June 2024 when the European Central Bank began to cut its deposit rate (by 1% to 3% currently).

It is then little surprise to see that US Treasury bond returns have been poor since September (-4%), while euro area government bonds have managed a meagre 1% including coupons. Contrast this with the impressive performance of Chinese sovereign bonds in renminbi, +7% over 2024. While Chinese stocks and real estate may have suffered since 2021, the risk of deflation has allowed the Chinese 10-year bond yield to ease below US and German yields to just 1.6%.

In fact, emerging market sovereign bonds overall remain relatively strong performers in US dollars, shielded from the strong US dollar, gaining 7% including coupons since the start of 2024.

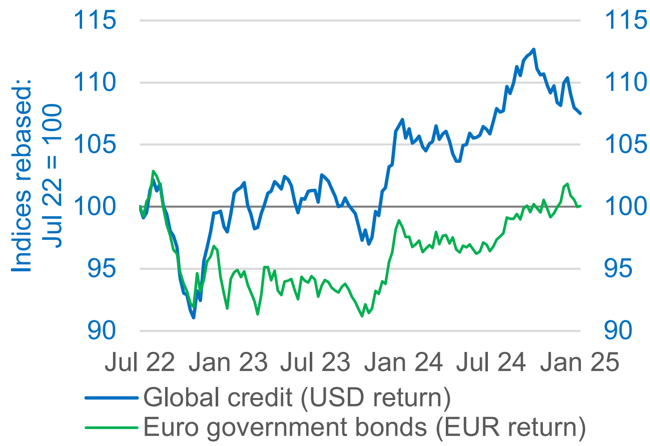
Key messages: expect modest returns from stocks this year, as further multiple expansion is unlikely. Post the steepening of the US yield curve, lengthen duration in US Treasuries Favour US and euro investment-grade credit, US agency bonds.

GLOBAL STOCKS MAINTAIN A SOLID UPTREND



Source: BNP Paribas, Bloomberg.

CORPORATE BONDS PERFORMED MODESTLY, GOVERNMENT BONDS STRUGGLED IN 2024



Source: BNP Paribas, Bloomberg

Divergent consumer and industrial economic trends

Consumption-related activity robust, industrial and investment trends still poor

The global economy remains in a two-speed mode: on the one hand, consumers have clearly spent reasonably over the holiday period, sustaining steady growth in services activity (led by strong US household spending). According to credit card company Mastercard in their Spending Pulse survey, US holiday retail sales grew 3.8% year-on-year for the period 1 November – 24 December, a robust performance supported by a healthy labour market and household wealth gains.

But in contrast, industrial activity globally remains weak, with the S&P/JP Morgan global manufacturing PMI ending 2024 below the breakeven 50 level, signalling a mild contraction led by weakness in the US, UK and the eurozone.

Lower short- and long-term interest rates are needed to incentivise greater business investment and new construction activity, while continued uncertainty over the incoming Trump administration's policy objectives delay US business investment in key sectors such as clean energy and building.

Overall, the leading economic indicator index for the G20 group of nations continues to rise, according to the OECD. This improving trend, combined with the expectation of lower interest rates over H1 2025, suggests that global economic momentum should improve sooner rather than later.

Lower energy prices could be a surprising positive for 2025 global growth

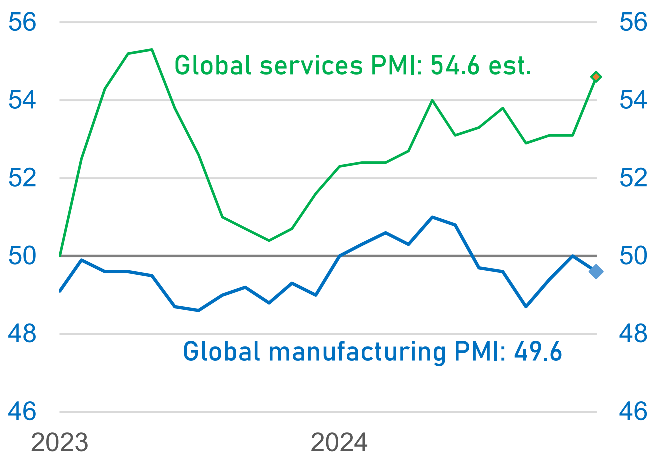
Global oil and gas prices remain key to global growth, given continued energy demand growth from developing nations. The International Energy Agency (IEA) forecasts global electricity demand to grow by 4% in 2025 on the back of the global electrification trend, supplied partly by greater production of renewable energy but also via increased use of natural gas, including Liquefied Natural Gas (LNG).

US and European natural gas prices have risen steadily in 2024, but oil prices should ease from the current USD 76/barrel for the Brent benchmark towards our forecast USD 60-70/barrel range this year, given the likely continued increase in supply from both OPEC+ and non-OPEC producers. Should lower energy prices materialise in the coming months, we could see a positive impact both on global growth and inflation, after the 2022 energy price shock.

We forecast positive returns from both precious and industrial metals in 2025, following on from a largely positive 2024. We focus on gold, silver, copper and tin, given strong global demand and emerging supply deficits in each of these metals.

Key messages: we continue to advise investment in commodities as a key diversification strategy. After a strong 2024, gold remains one of our favoured commodities for 2025, with 13% upside to our USD 3000/ounce 12-month target.

TWO-SPEED ECONOMY: CONSUMERS SPEND, BUT INDUSTRY IS CAUTIOUS



Source: S&P Global, BNP Paribas, Bloomberg.

NATURAL GAS, PRECIOUS METALS LED COMMODITIES (EX SOFTS) IN 2024

Commodity	Return 2024 ($)
US natural gas	36.0%
Gold	26.1%
Silver	21.8%
Tin	16.3%
Zinc	12.5%
Commodities	6.3%
Crude oil	4.0%
Copper	3.2%
Iron Ore	-23.9%

Source: BNP Paribas, Bloomberg

Four investment trends to stick with in 2025

European financials outperform the broader market

Improving bank lending trends are helping European banks to deliver earnings growth. Financial services (including wealth management, stock exchanges, broker/dealers) benefit from ongoing strength in financial markets and robust trading volumes.

Low-volatility hedge fund strategies deliver

Investors who seek funds with a low correlation to stock and bond markets should consider market-neutral ("long/short") equity and credit hedge and alternative UCITS funds. They have delivered returns (to end-November) well in excess of long-only bonds and credit at low annualised volatility.

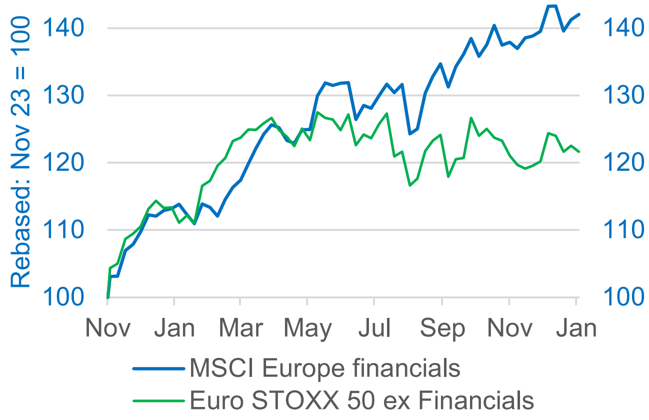
US listed infrastructure exposure

US energy and electricity infrastructure development themes performed strongly last year but remain a key focus for us in 2025 given the ongoing need for investment to satisfy energy demand growth.

Precious metals, enhanced commodity strategies

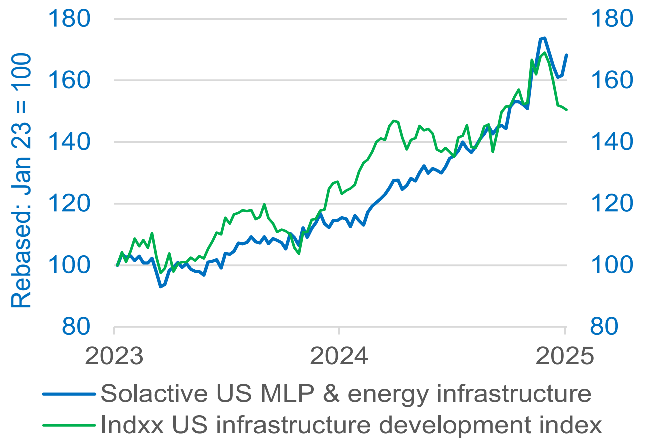
Gold and silver should do well again in 2025, particularly if the US dollar and bond yields see any reversal in near-term momentum after a sharp rise since October 2024. For more diversified commodities exposure including industrial metals, consider enhanced roll strategies that aim to extract a "roll yield" from commodities in backwardation (where far-dated futures prices are lower than spot prices).

EUROPE: FINANCIALS REMAIN IN SOLID UPTREND, PAYING HIGH DIVIDENDS



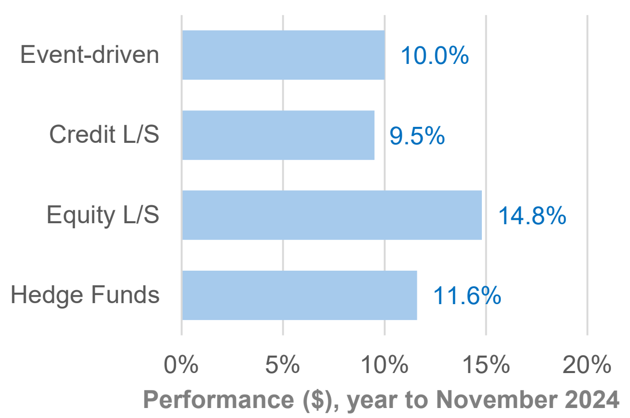
Source: BNP Paribas, Bloomberg. Note: total return indices

US LISTED ENERGY & ELECTRICITY INFRASTRUCTURE INVESTMENT THEMES



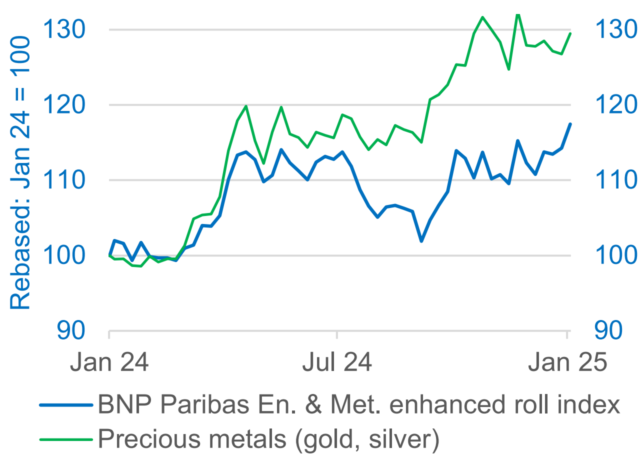
Source: BNP Paribas, Bloomberg. Note: total return indices

STRONG 2024 PERFORMANCE ACROSS SELECTED HEDGE FUND STRATEGIES



Source: BNP Paribas, Bloomberg. Note: Bloomberg hedge fund indices . L/S = Long/Short

COMMODITIES EXPOSURE SHOULD CONTINUE TO PAY OFF IN 2025



Source: BNP Paribas, Bloomberg. Note: total return indices in EUR

What will really matter in 2025

Redirected US government domestic and foreign policy	– The incoming Trump administration will potentially implement a wide range of domestic fiscal and deregulation policies. Tariffs and negotiations around tariffs and defence spending are likely to be a key focus of US foreign policy, alongside a potential shift in the US's government's attitude to the Middle East and Ukraine conflicts.
Falling benchmark interest rates, impact on liquidity	– Major central banks will continue to lower benchmark interest rates until late 2025 as inflation remains close to or even below target and as central banks look to support growth and employment. Macro liquidity should thus remain strong over the first few months of 2025, supporting risk asset markets.
Middle East and Ukraine conflicts	– These two conflicts remain unpredictable, with both scenarios of cooling tensions/ceasefire and rapidly intensifying conflict entirely possible. – The path of these two conflicts will likely continue to have a huge impact both on global uncertainty and on energy prices, and thus indirectly on growth and inflation well into 2025.
Direction of energy prices	– The geopolitical risk premium priced into crude oil remains a key driver of global energy prices. Fundamentals of weaker-than-expected global demand (e.g. from China) and higher production from OPEC+ and non-OPEC countries in early 2025 should keep energy prices capped in the absence of a higher geopolitical risk premium, easing inflation.
Rising fiscal dominance	– Record-high sovereign debt levels (even as a percentage of GDP) and higher bond yields have resulted in a surge in bond refinancing needs and in the interest cost burden on national budgets.
Technological disruption	– To what extent will technology impact earnings and productivity trends in 2025, given huge investment in potentially disruptive technologies including AI, cloud computing and cybersecurity? In other areas such as health care, energy and industrial automation, accelerating innovation should also drive improved efficiency and growth.

2025 Top Convictions

US and EU Banks, Financial Services (stocks)	- US banks should benefit from financial sector deregulation by the incoming Trump administration, alongside solid loan demand growth. - European banks should outperform thanks to rebounding loan demand, rising share buybacks + dividends and potential sector consolidation.
Japan (stocks)	- Japanese stocks continue to exhibit strong positive earnings revisions, improving profitability, merger & acquisition activity and shareholder returns, plus still-reasonable valuation. The recent weakness of the yen is an additional support.
EU investment grade Credit (bonds)	- European IG credit spreads remain relatively generous relative to very tight US spreads, while default risk remains very limited. The lower growth and inflation outlook for European economies is a fundamental support for underlying sovereign bond yields.
Gold and Silver (commodities)	- The recent correction in precious metal prices post US election as a reaction to the surge higher in US bond yields and the dollar provides an attractive entry point. - Long-term fundamentals as a diversifying store of value and in terms of strong industrial, central bank demand remain positive.
US energy infrastructure (alternatives, stocks)	- Growing electricity demand from data centres, air conditioning and electrification of the economy is driving the need for greater investment in US-based electricity generation and transmission capacity. - Increasing Liquefied Natural Gas export volumes underline the strong profitability and returns from oil & gas infrastructure.
Relative Value strategy Alternative UCITS/Hedge Funds (alternatives)	- Post US election uncertainty and high recent volatility and stock/sector dispersion provides a rich environment for relative value equity and credit hedge fund strategies, on a market neutral, low volatility basis. - We look for a repeat of 2024's robust risk-adjusted performance.

Summary of our main recommendations, by asset class

	Current Recom	Prior Recom	Constituents	We like	We avoid	Comments
EQUITIES	+	+	Markets	US, UK, Japan, Brazil, China, S. Korea Singapore and Indonesia		Buoyant global liquidity continues to support stock markets. Key drivers include falling US inflation, lower interest rates, improving macro liquidity, and easing energy prices. Build stock exposure gradually on market consolidations.
			Sectors	Global Health Care, Industrials, Materials, EU Financials & Technology	EU Oil & Gas, Consumer Staples	**Banks and financial services** should benefit from improving loan demand, elevated Net Interest Margins & loan loss provisioning. **Health Care** 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	Favour US 5-7 year duration. Prefer inflation-indexed bonds		12-month US 10Y yield target 4.25%, German 10Y bund yield 2.25%
	+	+	Credit	US, Euro IG credit		We favour investment grade Credit, focusing on EU credit (especially financials) on the back of decade-high yields and strong balance sheets.
	=	+	EM bonds	USD and local currency		Neutral on EM bonds given risks ahead (trade barriers, stronger USD, higher-for-longer US yields and tight valuations. Fundamentals remain, however, in place.
CASH	-	-				
COMMO-DITIES	+/-	+/=		Gold (+) Oil (-) Industrial metals (+)		<u>Oil (-)</u> Weaker global oil demand and the prospect of a steady reduction in OPEC+ production cuts force Brent prices into the USD 60-70 range. <u>Base metals (+)</u> The outlook for the manufacturing sector is improving. Cyclical demand will join structural demand while supply remains constrained. <u>Gold (+)</u> we remain Positive on the medium term for geopolitical reasons, 12-month range = USD 3000.
FOREX			EUR/USD			Our EUR/USD 12m target is USD 1.02. USD/CNY 12-month target is at 7.40.
REAL ESTATE	=	=		Health Care, logistics/ warehouses		Unlisted real estate faces enduring headwinds from slowing economies and much higher financing rates. Prefer listed real estate.
ALTERNATIVE UCITS				Long/Short Equity, Credit and Relative Value, Trend-following		Relative value alternative UCITS funds have beaten bond/credit indices since the start of 2023, offering lower risk returns, at low volatility.
INFRA STRUCTURE	+	+		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%	2023	2024	2025
United States	2.9	2.8	2.1
Japan	1.5	-0.3	0.6
Eurozone	**0.5**	**0.8**	**1.0**
Germany	-0.1	-0.1	0.4
France	1.1	1.1	0.8
Italy	0.8	0.5	1.0
Emerging			
China	5.2	4.9	4.5
India*	7.0	8.2	6.0
Brazil	2.9	3.4	2.1

* Fiscal year

Source : BNP Paribas - 06/01/2025

BNP Paribas Forecasts			
CPI Inflation%	2023	2024	2025
United States	4.1	2.9	2.9
Japan	3.3	2.7	2.7
Eurozone	**5.4**	**2.4**	**2.1**
Germany	6.0	2.5	2.4
France	5.7	2.3	1.1
Italy	5.9	1.1	2.0
Emerging			
China	0.2	0.3	0.8
India*	6.7	5.4	4.9
Brazil	4.6	4.4	5.1

* Fiscal year

Source : BNP Paribas - 06/01/2025

	Country	Spot 06/01/2025		Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1.04	1.06	1.02
	United Kingdom	EUR / GBP	0.83	0.83	0.83
	Switzerland	EUR / CHF	0.94	0.94	0.94
	Japan	EUR / JPY	163.71	159	153
	Sweden	EUR / SEK	11.47	11.60	11.70
	Norway	EUR / NOK	11.71	11.60	11.30
Against dollar	Japan	USD / JPY	157.51	150	150
	Canada	USD / CAD	1.44	1.40	1.38
	Australia	AUD / USD	0.62	0.66	0.64
	New Zealand	NZD / USD	0.56	0.60	0.60
	Brazil	USD / BRL	6.11	5.80	5.80
	Mexico	USD/MXN	20.32	21.00	22.00
	India	USD / INR	85.83	84.0	84.0
	China	USD / CNY	7.33	7.40	7.40
	South Africa	USD/ZAR	18.60	18.00	17.50

Source: : BNP Paribas, Refinitiv Datastream. As at 6 January 2025

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