C.I.A. NETWORK

Asset Strategy in Brief

March 2025

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The bank
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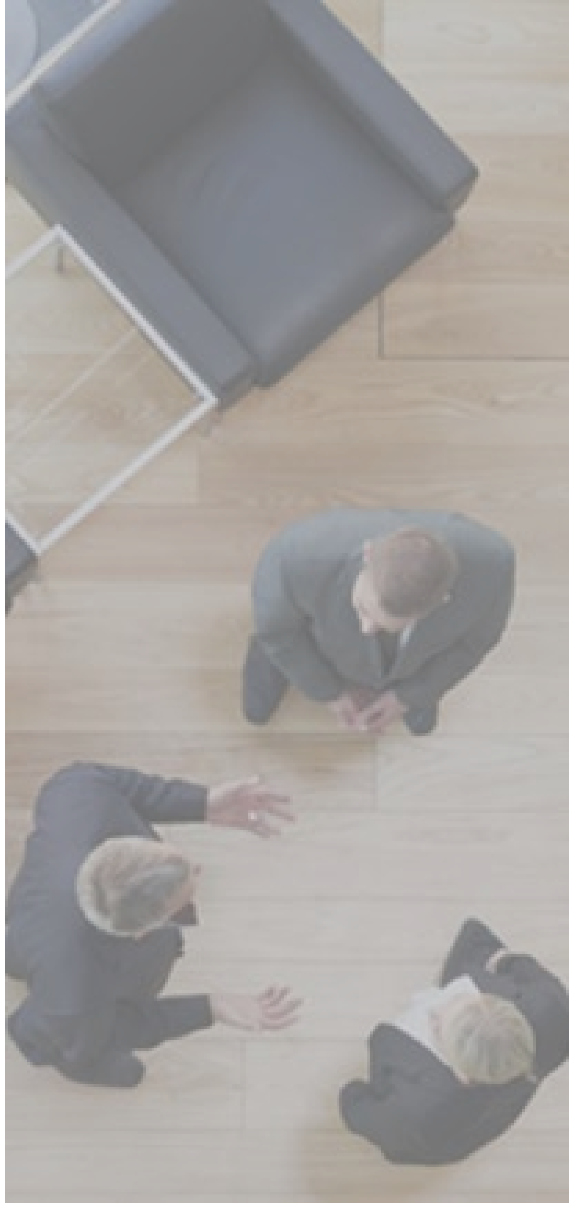
world



Summary

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Macro and market views

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Macro and Market Views

Macro		– The German election should lead to a once-in-a-generation stimulus package, which will increase structural economic growth from late 2025 onwards. Short term, growth may dip before improving given US tariffs and political uncertainty headwinds. – In the US, all will depend on the focus of Trump on the 4 pillars of his policy. We expect the new President to use tariffs mainly as a threat in the negotiations and extreme levels should not be sustained. The second focus should be on deregulation which should ease inflation pressures.
Rates	=	– We turn Positive from Neutral on German government bonds after the sell-off and we increase our bund yield target to 2.5% from 2.25%. – We turn Neutral from Positive on US Treasuries, and we reduce our recommended duration to below benchmark in the US (6 years) after the rally. – We stay Positive on US inflation-linked bonds and UK govies. – US and Euro central banks to cut benchmark rates to 4%, 2% by September 2025
Credit	+	– We turn Neutral from Positive on USD IG after the rally. – We stay Positive on EUR IG corporate bonds given strong technicals, high carry and low volatility. We also continue to like UK IG corporate bonds . – We prefer maturities of up to 10 years in the eurozone and up to 5 years in the US.
Equities	+	– We upgrade European Chemicals from Negative to Neutral, and downgrade European Real Estate from Positive to Neutral – Favour UK, Japan, China. We downgrade the US to Neutral. – Positive on Health Care, Industrials and Financials (Banks, Insurance). – We downgrade US IT and Consumer Discretionary to Negative. – We prefer investment themes like clean water, gold and 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.
Commodities	+	– Gold: We maintain our Positive mid/long term view and increase our 12-month target from USD 3000 to USD 3200/oz. We expect the upward trend to continue, with major support from central banks' rate cutting cycle and further gold reserves accumulation, combined with Trump's inflationary policy, possible trade war and concerns about high US budget deficits and government debt. – Oil: We remain Negative, with a target range of USD 60-70 in 12 months. Downside risks persist in view of Trump's policy favouring lower oil prices, weak demand growth, substantial non-OPEC supply growth and the intention of OPEC+ to gradually increase its production again as from April 2025.
FX		- EUR/USD: we have revised our 3-month target to 1.04 and maintain our 12-month target at 1.02 (value of one EUR). - USD/BRL: we maintain our 3-month target at 5.80 but change our 12-month target to 6.00 (value of one USD).

Asset Allocation

Allocation changes this month:

- **<u>Equities:</u>** Downgrade the US to Neutral; US IT and Consumer Discretionary to Negative. Upgrade European Chemicals from Negative to Neutral, and downgrade European Real Estate from Positive to Neutral.

- **<u>Bonds</u>:** We turn Positive from Neutral on euro core government bonds after the sell-off, and we turn Neutral from Positive on both US Treasuries and USD IG corporate bonds after the rally.

- **<u>FX</u>**: **EUR/USD: we have revised our 3-month target to 1.04** and maintain our 12-month target at 1.02 (value of one EUR). **USD/BRL:** we maintain our 3-month target at 5.80 **but change our 12-month target to 6.00 (value of one USD).**

- **<u>Commodities:</u> For Gold,** we maintain our Positive mid/long term view and **increase our 12-month target from** USD **3000 to** USD **3200/oz.**

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		
	2024e	2025e	2024e	2025e		Now	3M	12M		Now	12M
US	2.8	2.3	2.9	3.2	US Fed Funds Rate	4.50	4.50	4.00	US 10Y yield %	4.21	4.25
Eurozone	0.7	0.9	2.4	2.1	ECB Deposit Rate	2.50	2.50	2.00	Euro 10Y yield %	2.80	2.50
Japan	0.1	1.1	2.7	3.1	Bank of Japan Policy Rate	0.50	0.75	1.00	UK 10Y Yield %	4.62	4.00
UK	0.9	1.1	2.5	3.3	Bank of England Base Rate	4.75	4.50	3.75	S&P 500	5658	n/a
China	5.0	4.5	0.2	0.8	China MLF 1Y Interest Rate	2.00	1.40	1.10	Euro STOXX 50	5395	n/a
									Oil Brent USD/bbl	69.79	60-70
									Gold USD/oz	2905	3200

Source: BNP Paribas WM. As at 10 March 2025

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Bonds

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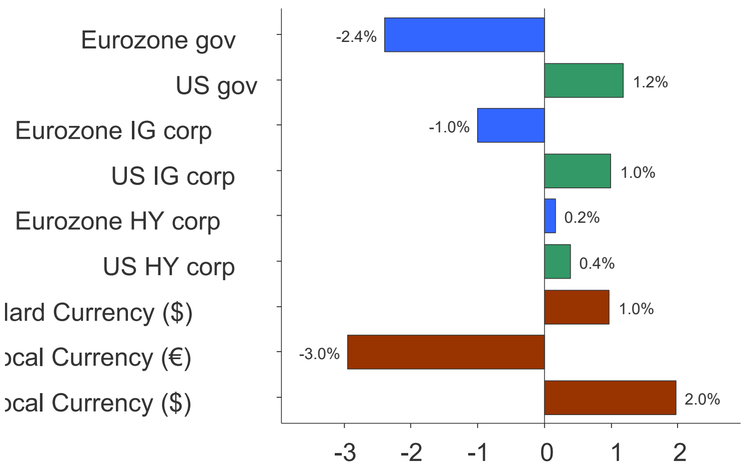
Fixed Income at a glance

Bond yields have surged in Europe with the announcement of the German fiscal shock plan, while the US economy is showing signs of weakening lately, prompting traders to make a U-turn in pricing the Fed and factor in more rate cuts.

We seize the opportunity to turn Positive from Neutral on euro core government bonds after the sell-off, and we turn Neutral from Positive on both US Treasuries and USD IG corporate bonds after the rally. We remain Positive on US inflation-linked bonds, UK bonds (both government and IG corporates) as well as EUR IG corporate bonds.

10-year yield	07/03/2025	12-month target
US	4.32	4.25
Germany	2.84	2.50 ▲
UK	4.65	4.00

Returns over one month



Source: LSEG Datastream, Bloomberg and JPM indices, 07/03/2025

Central Banks

We maintain our expectation for two 25bp rate cuts in the US this year, as the economy is weakening, leading to a terminal rate of 4%. In the eurozone, we anticipate two 25bp rate cuts as disinflation continues, and a terminal rate of 2%.

Government Bonds

We turn Neutral from Positive on US Treasuries, and we reduce our recommended duration to below benchmark in the US (6 years) after the rally. **We turn Positive from Neutral on German government bonds** after the sell-off and **we increase our bund yield target to 2.5%** from 2.25%. We stay Positive on US inflation-linked bonds and UK govies.

Peripheral bonds

Peripheral bonds are fairly priced compared with their credit ratings. They do not offer much potential for spreads to tighten further. We keep a Neutral view on the asset class.

Corporate Investment Grade (IG) Bonds

We turn Neutral from Positive on USD IG given limited upside potential. We stay Positive on EUR IG given strong technicals, high carry and low volatility. We prefer maturities up to 10 years in the eurozone and up to 5 years in the US.

Corporate High Yield (HY) Bonds

Valuations are too rich compared with the weakening macro-economic environment. Spreads may widen only modestly, however, as technicals are strong. Dispersion should increase, making credit selection key.

Emerging Market (EM) Bonds

Real yields remain high. However, we keep a Neutral view given the tight valuations, risks of trade tension, geopolitical risks and rising US dollar.

Our position for this month

Evolution of our position since last month

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Currencies

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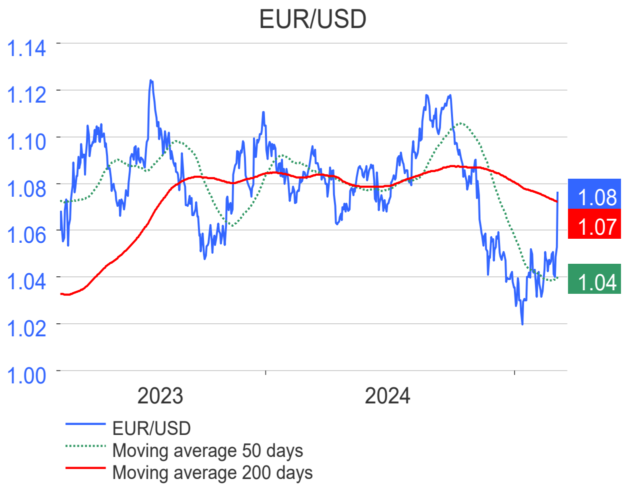
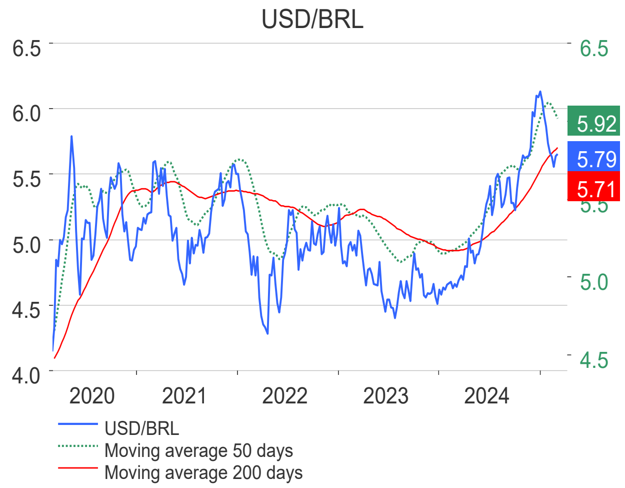
Currencies at a glance

1. **EUR/USD:** Excitement about Germany/EU's announcement is running high. The tariffs' negative impact on data and sentiment will be seen quickly. We expect most US dollar appreciation to result from wider interest rate spreads in favour of the US dollar,given our Fed vs ECB rate cut outlook. However, in view of the upside risk from the Ukraine-Russia war and the improvement in the German outlook, **we have revised our 3-month target to 1.04 (based on the MA 50d) and maintain our 12-month target at 1.02 (value of one EUR).**
2. **USD/BRL:** The central bank has raised its policy rate by 100bps, bringing the Selic rate to 13.25% in January. We expect the economy to slow, with the impact of US tariffs, and interest rates to continue to rise sharply. We also expect the BRL to continue to underperform, given the ongoing fiscal uncertainty, and **therefore we maintain our 3-month target at 5.80 but change our 12-month target to 6.00 (value of one USD).**



Source: LSEG Datastream, 05/03/2025



Source: LSEG Datastream, 05/03/2025

>> TARGET 12M EUR/CHF: 0.94

The central bank made an unexpectedly large cut of 50bp in December, bringing the key rate to 0.5%. The improving economic outlook relative to the eurozone with a large current account surplus, suggests little depreciation potential for the CHF. **We maintain our 3- and 12-month EUR/CHF targets at 0.94 (value of one EUR).**

>> TARGET 12M USD/JPY: 150

The BoJ raised the policy rate by 25bps to 0.50% in January. We expect two more hikes this year and two more in 2026, with a terminal rate of 1.50%. The JPY should be less affected by trade policy than other currencies. The upside for the yen is limited given the US terminal rate assumption. **Our 3-month and 12-month targets for USD/JPY are 150 (the value of one USD). This suggests moderate upside for the JPY.**

>> TARGET 12M USD/CNY: 7.40

The central bank left the policy rate unchanged in February. 1Y & 5Y LPR stayed at 3.1% and 3.6%, respectively. US tariff policy is the main risk. In addition, the central bank left the USD/CNY fix higher. This is in line with our view that US tariffs on China could lead to further currency weakness. **Our 3- and 12-month targets are 7.40 (value of one USD).**

>> TARGET 12M EUR/GBP: 0.83

The BoE delivered a 25bps cut to 4.5% in February. We expect the UK and GBP to be relatively less affected by US tariffs. The interest rate differential will remain a source of support for the GBP. The GBP should remain strong against the euro. **Our 3-month and 12-month targets remain at 0.83 (value of one EUR).**

>> TARGET 12M EUR/SEK: 11.70

The Riksbank delivered a 25bp cut to 2.25% in January. Sweden is vulnerable to US tariffs. Lower inflation could make the Riksbank more favourable to a weak currency in order to support Swedish exporters. **We change our 3-month EUR/SEK target to 11.40 and our 12-month target to 11.70 (value of one EUR). This suggests moderate downside for the SEK.**

>> TARGET 12M USD/CAD: 1.40

The Bank of Canada lowered its key interest rate by 25 basis points to 3% in January. US tariff uncertainty is still weighing. This leaves the CAD vulnerable. However, a likely deal, more fiscal stimulus and the upcoming 2025 election could provide support for the CAD. **Given these factors, our 3-month target for the CAD is 1.45 and our 12-month forecast is 1.40 (value of one USD).**

Forex at a glance

FX FORECASTS EUR

	Country		Spot 05/03/2025	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1.08	Positive	1.04	Positive	1.02
	United Kingdom	EUR / GBP	0.84	Neutral	0.83	Neutral	0.83
	Japan	EUR / JPY	160.29	Positive	156	Positive	153
	Switzerland	EUR / CHF	0.96	Neutral	0.94	Neutral	0.94
	Australia	EUR / AUD	1.71	Positive	1.58	Positive	1.59
	New-Zealand	EUR / NZD	1.89	Positive	1.73	Positive	1.70
	Canada	EUR / CAD	1.55	Positive	1.51	Positive	1.43
	Sweden	EUR / SEK	11.03	Negative	11.40	Negative	11.70
	Norway	EUR / NOK	11.80	Neutral	11.60	Positive	11.30
Asia	China	EUR / CNY	7.81	Neutral	7.70	Positive	7.55
	India	EUR / INR	93.60	Positive	91.52	Positive	89.76
Latam	Brazil	EUR / BRL	6.29	Positive	6.03	Positive	6.12
	Mexico	EUR / MXN	21.96	Neutral	21.84	Negative	22.44

Sources: BNP Paribas, LSEG

FX FORECASTS USD

	Country		Spot 05/03/2025	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1.08	Negative	1.04	Negative	1.02
	United Kingdom	GBP / USD	1.29	Negative	1.25	Negative	1.23
	Japan	USD / JPY	148.91	Neutral	150.00	Neutral	150.00
	Switzerland	USD / CHF	0.89	Neutral	0.90	Negative	0.92
	Australia	AUD / USD	0.63	Positive	0.66	Neutral	0.64
	New-Zealand	NZD / USD	0.57	Positive	0.60	Positive	0.60
	Canada	USD / CAD	1.44	Neutral	1.45	Positive	1.40
Asia	China	USD / CNY	7.26	Neutral	7.40	Neutral	7.40
	India	USD / INR	86.96	Neutral	88.00	Neutral	88.00
Latam	Brazil	USD / BRL	5.85	Neutral	5.80	Negative	6.00
	Mexico	USD / MXN	20.40	Negative	21.00	Negative	22.00
EMEA	South Africa	USD / ZAR	18.39	Positive	18.00	Positive	17.50
	USD Index	DXY	105.74	Neutral	107.52	Positive	108.91

Sources: BNP Paribas, LSEG

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Equities

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Hope for the best, prepare for the worst

Can the EUphoria last?

- **What a start -** European equities keep running higher with the Euro Stoxx 50 back at the 2000 highs, driven by one of the best starts to the year on record. Perhaps most surprisingly, the index has actually outperformed the average US stock in USD terms since the election.
- **We see three drivers:**
  (i) There appears to be fundamental support for the outperformance as earnings revisions have risen since last November.
  (ii) Hopes of peace in Ukraine have also driven the shift in sentiment. As we argued here, we see the risk that the outcome will be a ceasefire rather than a durable peace agreement, negotiated without major European involvement. Consequently, there is a real risk that European sanctions may not be lifted as quickly as the market is pricing.
  (iii) The outcome of the German election, which provided a more stable two-party coalition, also increased hopes for a more growth-friendly policy. While we agree in general, the devil is in the details. With a reform of the debt brake unlikely, the room for manoeuvre is more limited. Further details are required to assess the long-term growth impulse.
- **A lasting change in trend?** We think it's premature to conclude that the rotation away from the US is sustainable mainly because of the higher quality nature of the median stock in the US, and that the S&P 500 still offers the strongest EPS growth expectations of its global peers.

Main recommendations

Our long-held view that Chinese Tech companies offer great value is becoming more consensus. A correction is becoming more likely in the short term. We would add positions in any signs of weakness

Don't miss the efficiency gains from AI adoption– we have argued before that we expect the market to increasingly focus on AI-enabled revenues. Industries which should benefit the most and on which have an overweight rating include Software, Healthcare and Financials.

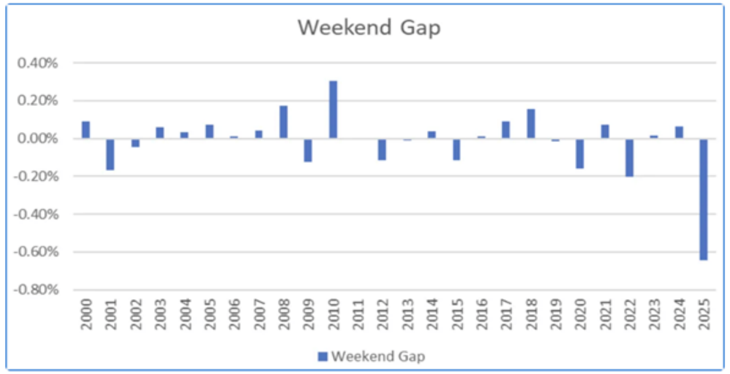
Japan- tailwinds ahead: We believe that light positioning among foreign investors in conjunction with undemanding valuations should provide fertile grounds for future returns, boosted by several tailwinds: i) a positive seasonality; ii) solid earnings and iii) a fresh round of announcements on Corporate Governance improvements.

Downgrade the US to Neutral; US IT and Consumer Discretionary to Negative. And downgrade European Real Estate from Positive to Neutral.

Upgrade European Chemicals from Negative to Neutral.

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

WEEKEND GAP: BEWARE OF THE TRUMP TWEET



The average Friday to Monday gap for the SPDR S&P 500 ETF Trust, or SPY. Source: Bloomberg Intelligence *Source: Bloomberg Inteligence*

THE MARKET IS BECOMING PRONE TO A CORRECTION

Magnitude	Ø Frequency	Ø Length	Last	overdue
> -5%	~ every 4 moths	39 days	August 2024	✓
> - 10%	~ every 16 months	128 days	October 2023	✓
> - 15%	~ every 3 years	230 days	October 2022	✗
> -20%	~ every 5.5 years	335 days	October 2022	✗

Source: BNP Paribas, Bloomberg

Asian Equities view

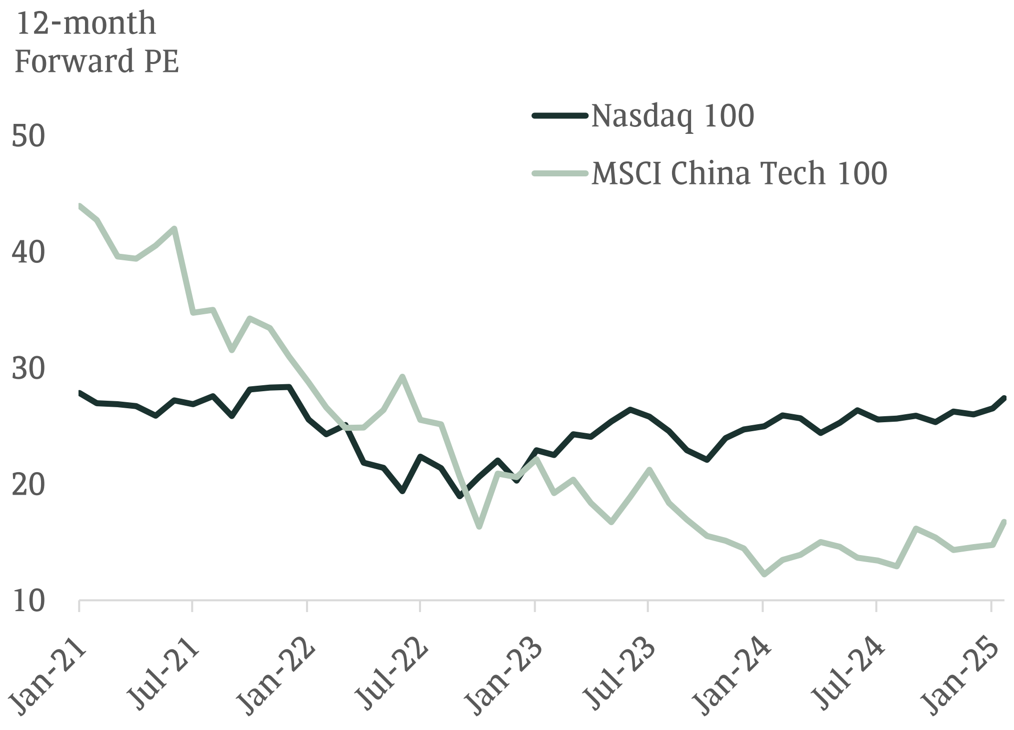
ASIA COUNTRY PREFERENCE

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

- **China equities** outperformed YTD, thanks to the key drivers i) latest DeepSeek development leading to re-evaluation of China's AI potential and re-rating of China tech stocks; ii) upcoming NPC in early March 2025 (expectations of policy stimulus), and iii) President Xi met prominent private entrepreneurs (including Alibaba's Jack Ma), boosting private sector confidence. In the short term, the market looks technically overbought and could see some consolidation. In the medium term, we continue to be Positive on China equities particularly techs (valuations still cheap despite the recent rally) and high dividend plays (banks, telecom).
- **India equities** saw another quarter of subdued earnings growth. The RBI delivered its first rate cut by 25bps in February. India is undergoing a cyclical economic slowdown. Continued rate cuts could help lower cost of capital for retail and corporates, which could help increase consumption (India also announced tax cuts for salaried middle class recently) and investment in 2H 2025. In the longer term, India remains a structural growth story. However, in the short term, we may see further corrections amid rich valuations and lack of catalysts (potential foreign fund flows from India to China). Any signs of a cyclical turnaround would be buying opportunities.

There is still room for valuation normalisation of China techs

Nasdaq vs China Tech: A huge valuation gap



Source: Bloomberg, BNP Paribas WM, as of 18 February 2025

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Commodities

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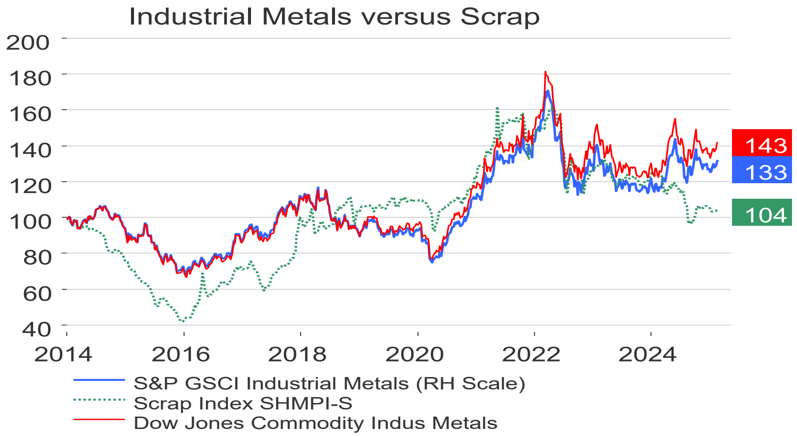
Commodities at a glance

Base metals are somewhat recovering from their November-December correction, as (despite the ongoing threat of higher tariffs) there is more hope surrounding Chinese growth (and stimulus) and a Russia/Ukraine peace deal. There have also been some supply cuts in copper, lithium, palladium (due to low prices). YTD iron ore is up 4%, Aluminum 6%, copper 10% and tin 15%.

BASE METALS

Short term, commodity prices are mainly driven by expectations about trade tariffs (negative) and Chinese stimulus and Ukraine peace deal (positive). We remain Positive for the next few years in view of the growing demand for the energy transition and infrastructure, outpacing expected supply growth.



Source: LSEG Datastream, 21/02/2025

Brent price retraced from its January surge (from peak of USD 82 back to USD 73) as Trump is talking down the oil price, with his "drill, baby, drill" policy, his appeal to OPEC+ to increase production, and the possibility of lifting some sanctions on Russia in the event of a peace deal. **We remain Negative, with a target range of USD 60-70 in 12 months.**

OIL

We remain Negative, with a target range of USD 60-70 in 12 months. Downside risks persist in view of Trump's policy favouring lower oil prices, weak demand growth, substantial non-OPEC supply growth and the intention of OPEC+ to gradually increase its production again from April 2025.

Source: LSEG Datastream, 21/02/2025

Gold rallied to a new all-time-high and is approaching our previous target of USD 3000, mainly supported by uncertainties about Trump's policy (trade tariffs, geopolitics, inflation, fiscal deficits). **Although we do not exclude any short-term consolidation, we maintain our Positive mid/long term view and increase our 12-month target from USD 3000 to USD 3200/oz.**

GOLD

We expect the upward trend to continue, with major support from central banks' rate-cutting cycle and further gold reserves accumulation, combined with Trump's inflationary policy, possible trade war and concerns about high US budget deficits and government debt. **We increase our 12-month target to USD 3200/oz.**

Source: LSEG Datastream, 21/02/2025

Our position for this month

Evolution of our position from last month

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Alternative Investments

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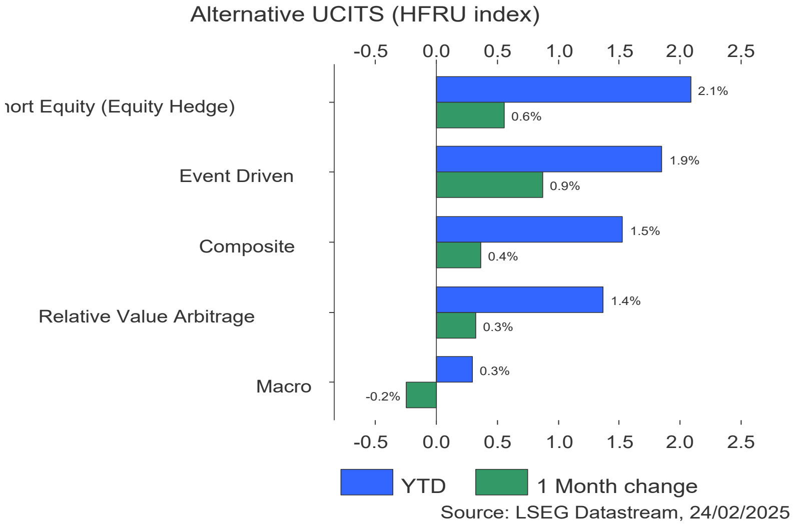
Alternative Investments

Performances remain quite positive this year, especially for long-short equity and event driven.

The past month was also generally positive except for macro.

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



Global Macro

Neutral: markets are now contending with the upcoming potentially radical decisions of the new Trump administration. The stability of trends is still difficult to forecast. Both discretionary macro and CTAs tend to have significant uninvested cash as they primarily use futures and derivatives.

Long/Short Equity

Positive: intra-market equity dispersion is back 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. Political interference, such as trade barriers or tariffs may also open long and short opportunities in specific sectors and geographies.

Event Driven

Positive: the strength of the US dollar could encourage transatlantic mergers from American buyers taking advantage of undervalued companies in Europe. New distressed investment opportunities are bound to arise from higher funding costs with weaker companies' "maturity wall" approaching.

Relative Value

Positive: so far, the combination of resilient growth, moderating inflation and stable to lower policy rates has been quite supportive to credit markets. However, volatility and spread widening may stem from Trump's inflationary measures as they impede further monetary easing, combined with disappointing macroeconomic data. On the positive side, credit dispersion may increase further as high yield companies react to "higher for longer" rates with their debt maturity approaching.

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