

Investment Strategy Focus

Have US interest rate expectations overshot?

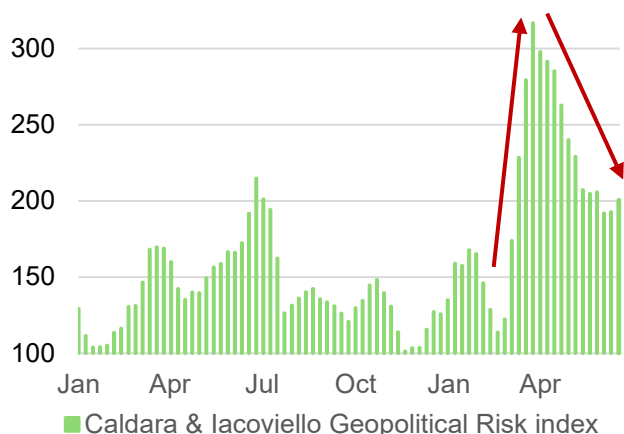
Summary

- 1. US-Iran negotiations and Strait of Hormuz reopened:** with more and more tankers exiting the Strait, oil prices have returned to pre-conflict levels around USD70. Energy costs should be a disinflationary force sooner rather than later, now reflected in lower bond yields. **Downgrade to Neutral on eurozone government bonds following post-agreement yield compression.**
- 2. How persistent is inflation?** US inflation has remained above the Fed's 2% target for 5 years, supported by the AI investment boom and persistent service inflation. However, US consumer demand is fragile, and wage growth is limited. **We see only 1 Fed rate hike to come in December, rather than a new rate hike cycle.**
- 3. Stock bull market health depends on rates, liquidity:** 10-year US bond yields below 4.5% and continued growth in global money supply are key supports for stocks, alongside bullish earnings trends. **Neutral on equities, favour Japan, US small-caps and Latin America.**
- 4. Sector rotation away from Mag 7:** since November, hyperscalers have increasingly underperformed as fears over AI capex funding and eventual profitability have grown. **Favour rotation away from US Big Tech to value-oriented exposure in Banks, Mining, Healthcare.**
- 5. Value in vogue:** since the end of March, value stocks in the US, Europe and Emerging Markets have all outperformed broad index benchmarks. **For investors looking to diversify away from tech-heavy growth stock exposure, value-oriented ETFs and funds are excellent choices.**

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GEOPOLITICAL RISK HAS FALLEN SUBSTANTIALLY FROM APRIL PEAK



Source: BNP Paribas, Bloomberg.









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Global CIO

BNP Paribas Wealth Management



Macro and Market Views

	Macro		<ul style="list-style-type: none"> - The US Iran peace agreement is set to revive risk appetite and lower geopolitical tension. - Inflation pressures have eased but persist, reinforcing confidence in a resilient world economy. With the risk of a major conflict escalation easing, the degree to which June's surveys recover, and oil price stay low should be monitored closely..
	Bonds	=	<ul style="list-style-type: none"> - Neutral on UK gilts (12-month yield target is 4.3%). - Neutral on core eurozone sovereigns (favour maturities of 7-10 years) and on US Treasuries; prefer shorter-term (ca. 5 year) maturities. - The ECB is expected to keep the deposit rate at 2.25% to year end. The Fed should raise once in December to a 4.0% Fed Funds target rate. - We see the US 2-year yield at 4.0% in 12 months, 10-year yield at 4.5%. - Our 12-month target on the German 10-year bund yield is 2.75%.
	Credit	+	<ul style="list-style-type: none"> - We prefer EUR and GBP IG corporate bonds (Positive view) to USD IG bonds (Neutral view) given the supply dynamics and the level of spreads. We focus on quality. - Neutral on US high yield credit. Spreads fell back close their historical lows even though uncertainty remains high. They do not remunerate the underlying risk.
	Equities	=	<ul style="list-style-type: none"> - Neutral on Equities: While we have become more constructive on equities after the easing of tensions in the Middle East, the expected upward trajectory might not be linear. In particular, higher rates could cause some friction along the way.. - Favour Japan, Brazil and Mexico. - Neutral on the US, UK, EM, Europe - Positive on Health Care, Industrials and Mining, EU utilities and EU Banks.
	Real Estate	=	<ul style="list-style-type: none"> - INREV European private real estate funds continue to see steady growth in net asset values, delivering an average return of 4.4% to investors for 2025. - Industrial/logistics exposure preferred for healthy yields, higher expected rental growth on robust underlying demand growth.
	Commodities	+ / + / -	<ul style="list-style-type: none"> - Precious metals: we remain Positive on precious metals. Gold 12-month price target USD 5,500 per ounce and USD 90 per ounce for silver. - Positive view on strategic industrial metals, such as copper, aluminium and tin. - Negative stance on Oil, 12-month price range for Brent crude oil of USD 60-70;
	Alternative UCITS/ Private Assets		<ul style="list-style-type: none"> - Positive opinion on Macro and Long-Short Equity. We also like Event-Driven strategies, in particular M&A arbitrage. - Positive on infrastructure, given medium-term structural growth boosted by government spending and emerging market demand.
	FX		<ul style="list-style-type: none"> - The short-term strengthening of the US dollar in the current risk-off environment is unlikely to persist in the longer term, given supplementary US defence spending increasing the US budget deficit and weighing on the USD. - EUR/USD 12-month target USD 1.20 (value of one EUR).

Is the ageing bull market living on borrowed time?

Higher rates could bring this bull market to an end

Today's stock market uptrend has now lasted 45 months since the last major stock market fall bottomed out in October 2022, gaining 114% in USD in the process. While this sounds impressive, note that this current uptrend is modest by historic standards. The average bull market has lasted over 5 years and has registered an average gain of 149%. By this yardstick, today's bull market could easily have further to run.

In general, there are a small number of factors that have ended prior bull markets by killing global growth and triggering economic recession:

- Central banks led by the US Federal Reserve starting a new rate hiking cycle to contain above-target inflation;
- An investment boom turning to bust as overinvestment becomes apparent and as the cost of financing rises - as in 2000 (dot-com bubble) and 2008 (Global Financial Crisis);
- A sharp slowdown in economic growth triggered by a huge rise in energy costs, which act as a tax on the global economy (1990, 2000, 2008).

With the arrival of Kevin Warsh as Fed President, the interest rate market has priced in the likelihood of a higher Fed Funds rate in the coming months. An upwards drift in US inflation has been evident since late 2025, accelerated since March by a jump in energy inflation to 22% y/y as of May. Higher interest rates and a slowdown in growth could be difficult factors for the bull market to digest.

Economic and earnings growth supported by loose financial conditions

The US 2-year Treasury bond yield has surged from 3.4% at the beginning of March to 4.1% today, while the current Fed Funds target rate remains 3.75%. The bond market is pricing in slightly more than one 0.25% hike in the Fed Funds rate by mid-2027. Can Warsh manage the tricky task of cooling inflation without killing US economic growth in the process?

Currently, the US economy is in a mid-cycle inflationary boom - the New York Fed estimates that Q2 2026 GDP growth is running at a 2.7% annualised pace, while the core inflation rate favoured by the Fed remains well above target at 3.3% as of April.

This suggests that US nominal growth is running at a 6% annual pace, in line with US M2 money supply growth and well above US short- and long-term interest rates. For now, financial conditions remain loose, supporting stocks, high yield credit and real estate investment trusts (REITs).

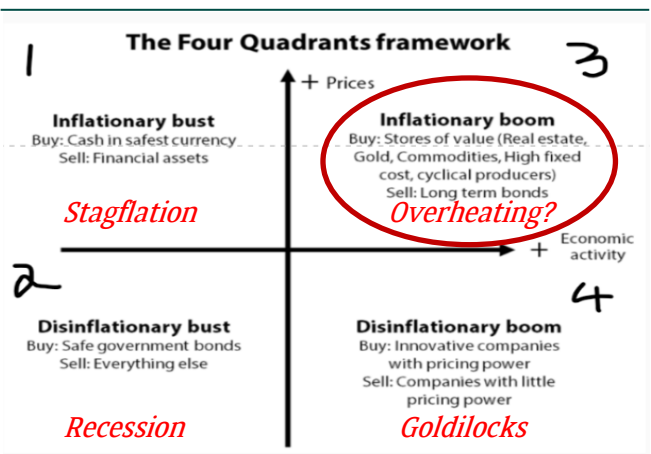
The key question is "Will Warsh end the stock market party by taking away the punchbowl"? Will he raise rates to avoid even higher inflation, as advocated by former Fed chair William McChesney Martin Jr. in 1955? On the one hand, US inflation has been persistently above the Fed's 2% target for 5 years straight, latterly boosted by higher energy prices. On the other, key drivers of long-term inflation such as housing costs and wages remain well-controlled, and Artificial Intelligence (AI) could have a profound disinflationary impact on the economy.

GLOBAL STOCKS HAVE ESTABLISHED MULTIPLE NEW HIGHS SINCE LATE 2023



Source: Bloomberg, BNP Paribas

THE 4 PHASES OF THE BUSINESS CYCLE: IN AN INFLATIONARY BOOM TODAY



Source: Evergreen Gavekal, BNP Paribas

Lower energy, shelter prices are a key factor

Lower energy prices could persuade the Fed to wait

Electoral considerations could play an important role in the timing of any eventual Fed rate hike. US mid-term elections take place in early November, so the Federal Open Market Committee (FOMC) could opt to avoid any risk of political bias by delaying any rate hike to its 9 December meeting.

In addition, there is an ongoing debate over the timeliness of official US inflation measures. In particular, the measure of housing costs (“cost of shelter”) is very lagged, typically reflecting the state of the housing market 12-18 months in the past. Updating US core CPI using a real-time cost of shelter component (using data from Zillow and Apartment List) takes core CPI from 2.9% y/y to just 1.6%, according to Jeremy Schwartz at Wisdomtree.

Moreover, US energy costs should decline meaningfully in the months ahead given the reopening of the Strait of Hormuz and the resultant fall in crude oil prices close to pre-conflict levels (USD70/barrel for US West Texas Intermediate crude).

Thirdly, Warsh has previously been vocal in his belief that AI will deliver huge productivity benefits to the US economy, potentially acting as a disinflationary force particularly via restraining labour costs. Productivity is the key focus of one of the taskforces announced by Warsh at his first FOMC press conference, with results expected before the end of this year. He may prefer to wait for the results of these taskforces before taking any big rate decisions.

All in all, we don’t expect a new rate hiking cycle

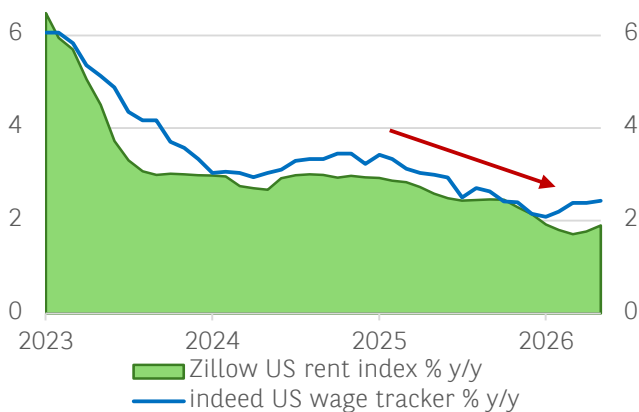
Taking all these factors into consideration, we only expect the Fed to hike once in December, rather than start on a series of rate hikes. We would rather expect US economic growth to slow over the second half of this year for two main reasons. Firstly, the majority of US consumers are increasingly struggling with a lack of purchasing power, evident in the struggles of the US retailing sector. Secondly, AI-related investment spending could be potentially throttled by a) the lack of permitting for new data centres, b) delayed connections to the electricity grid and c) limited access to semiconductor chips and other essential electrical equipment. Slower growth, cooling energy costs and restrained shelter and labour costs could be enough to keep the Fed Funds target rate at 4.0% into 2027.

We don’t see the ECB hiking further either

In contrast to the Fed, the European Central Bank (ECB) has already hiked its benchmark deposit rate by 0.25% to 2.25% on 11 June in response to a jump in the eurozone May core CPI reading to 2.6% y/y. Given Europe’s greater sensitivity to imported energy, the lower energy costs resulting from any long-lasting US-Iran agreement should have impact growth (higher) and inflation (lower) from here into 2027.

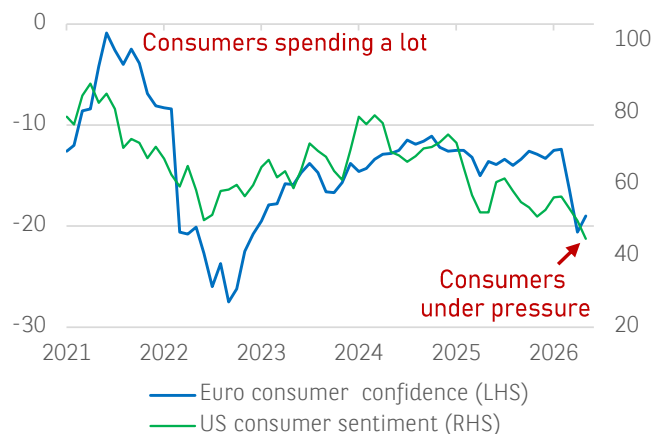
Given that rental inflation looks to have peaked and with eurozone wage growth stabilising around 2.6% y/y according to the ECB wage tracker index, we see the ECB keeping the deposit rate at 2.25% for the foreseeable future.

US WAGES, RENTS TRACKING AROUND 2% YEARLY



Source: Bloomberg, BNP Paribas

CONSUMER CONFIDENCE HIT BY LACK OF PURCHASING POWER



Source: Bloomberg, BNP Paribas

Stock leadership shifts away from Tech

Big Tech fades, Value leads

Even though the AI investment theme looks alive and well judging by the phenomenal performance of memory semiconductor stocks in the US and Asia since March, there is nevertheless clear evidence of a rotation in leadership of the global stock market.

Since 2010, the dominant global stock market theme has been US Big Tech, underlined by the persistent outperformance of the tech-heavy Nasdaq 100 over the MSCI World index since 2013. The growth of social media, cloud computing, the boost to tech demand from COVID and latterly the boom in AI investment post the launch of ChatGPT have all been the motors of this megatrend.

But all good things come eventually to an end. In the US, the Magnificent 7 tech stocks have fallen 6% in aggregate since November last year, while US industrials, mining, infrastructure and smaller-cap stocks have all outperformed the S&P 500 by a wide margin. Overall, US growth stocks have underperformed value stocks dramatically since November 2025, a trend also evident in Europe.

At a sector level, value-oriented Energy, Mining, and Regional Banks have all beaten US mega-cap growth stocks by 17%-23% since November. At a regional level, value-oriented emerging markets and Japan (USD-hedged) markets have beaten the S&P 500 index by 16%-19% since November.

The conclusion is clear: for those clients who have been invested profitably over the long term in US Technology, it is time to take some profits and increase stock market exposure to value regions and sectors.

One of our convictions; long US Small-Caps

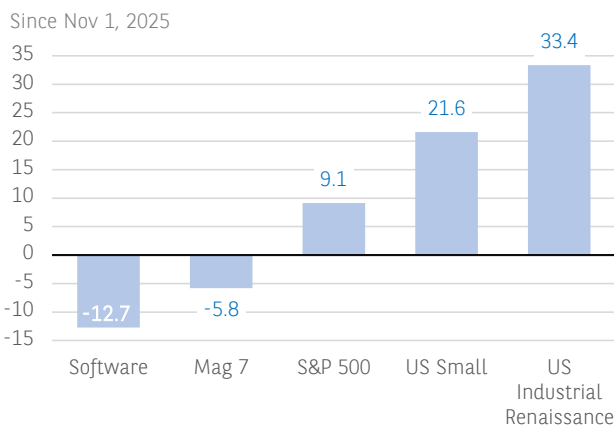
While the excitement in US stocks is all about AI, US small-caps (S&P small-cap 600 index) have quietly outstripped the Magnificent 7 by 32% cumulatively since November. Even since mid-May, this outperformance has been impressive at +18%. Despite this impressive relative momentum, US small-caps still today offer attractive relative valuation at 15x forward P/E versus 21x for US large-caps (a near-30% discount) on the back of increasing 2026 and 2027 earnings estimates.

Bear in mind that the recent trend of US large-cap outperformance is historically rare; over the last 100 years US small-caps have delivered on average 11.6% per year against 10.3% for large-caps (according to Ibbotson data), annual outperformance of 1.3%. Rebalancing from US mega-cap tech via adding small-cap exposure is essentially expecting some "reversion to the long-term mean", a simple value strategy.

Gold miners now on sale

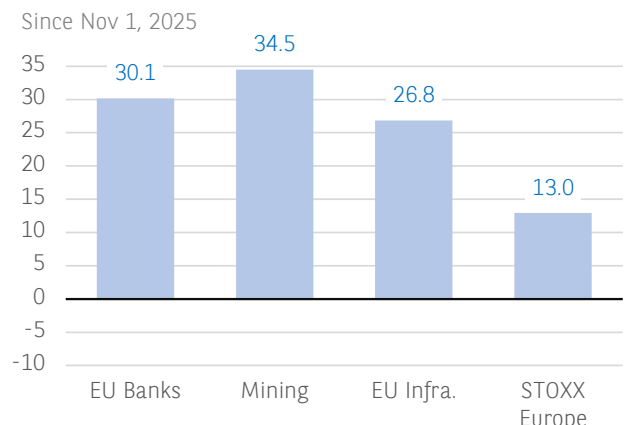
A more contrarian value conviction for those with an appetite for more volatile but potentially rewarding opportunities exists in gold miners. This follows the 25% correction in the gold price from USD5400/ounce at end-January peak to USD4000 as of 24 June. The NYSE Gold Bugs index of major gold miners has corrected 34% from peak, while offering record free cash-flow yields mostly well above 10%. We remain positive on the long-term gold outlook with a USD5500 12-month price target. Gold miners have significant operational leverage to higher gold prices and do not price gold at anything like this level.

US SECTOR ROTATION: AWAY FROM MAG 7 TO SMALLER-CAP



Source: Bloomberg, BNP Paribas

BANKS, MINING, INFRA HAVE ALL BEATEN EU TECH



Source: Bloomberg, BNP Paribas

Iran deal boosts Euro fixed income

Euro government yields ease lower, credit follows

Conflict in the Middle East sent European fixed income yields soaring, with 10-year eurozone government yields rising 0.6% to 0.7% across the board from end-February to peaks in March-May.

The US-Iran Memorandum of Interest is now in force, facilitating the reopening of the Strait of Hormuz. The Brent crude oil price has consequently corrected sharply from over USD110/barrel at peak to USD71 by 25 June. The risk of persistent energy inflation and subsequent second-order inflationary effects has thus receded, underpinning our forecast that the ECB will leave its benchmark deposit rate at 2.25% to year end.

The 10-year German bund yield has reflected this new energy scenario, falling from 3.2% in May to under 2.9%. Italian 10-year BTP yields have experienced an even greater 0.5% compression in yields from a March peak of 4.1% to 3.6% as at 24 June.

European investment grade (IG) credit has benefited from the fall in underlying sovereign yields, while BBB credit spreads have returned to pre-conflict tights of around 0.9%. This has allowed a modest positive return of 1% over the year to date; further gains will depend on a progressive pickup in oil and gas exports from the Gulf.

Higher-risk corporate bonds such as AT1 (convertible contingent) financial sector bonds have delivered higher returns over the year to date of around 3%, in line with their higher absolute yields,.

US high grade corporate yields at 5.4%

Despite rising US Treasury yields and heavy technology sector bond issuance so far in 2026, US investment grade corporate bonds have been remarkably stable, delivering a +1% return since the start of the year thanks in large part to high absolute yields on offer, currently 5.4% for BBB-rated bonds and 0.4% higher than at the beginning of January.

We see little reason for us to change our Neutral view on both US Treasuries and US IG credit at this point (maturities up to 5 years), given a) our new higher 12-month target of 4.5% for 10-year US Treasury bonds in 12 months (higher than the current 4.4% yield), and b) a historically compressed BBB credit spread of 0.9% over Treasuries, with little scope for further tightening and tech sector credit issuance to come.

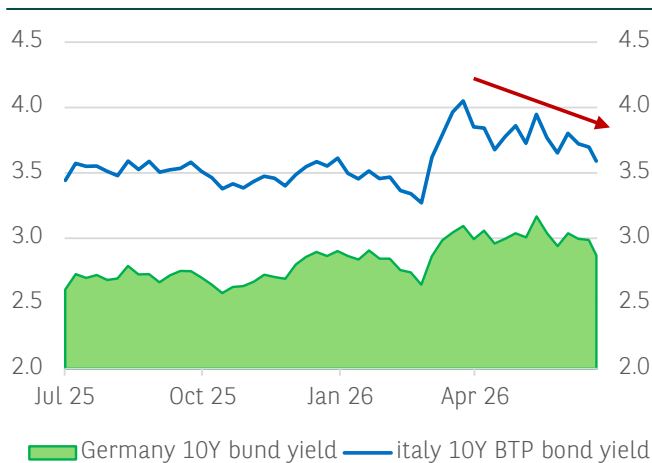
Downgrade EU sovereign bonds to Neutral

We downgrade core Eurozone and UK sovereigns from Positive to Neutral. Yields have receded, making expected returns less attractive.

We prefer EUR and GBP investment grade corporate bonds (Positive view) to USD investment grade bonds, reflecting supply dynamics and the relative level of yields and spreads. Our focus remains on quality.

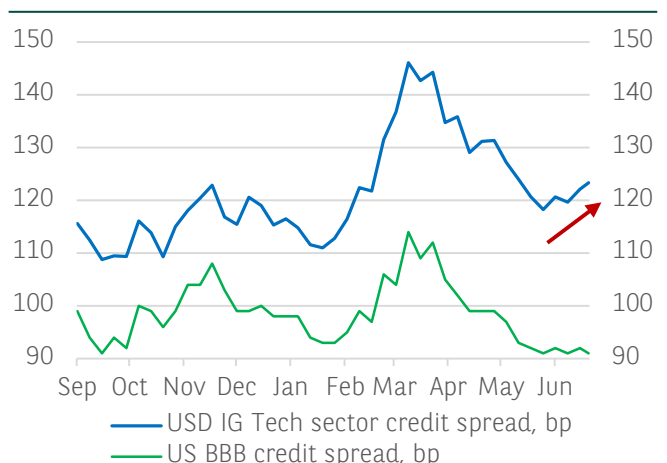
We have upgraded corporate high yield back to Neutral as geopolitical risks have diminished following recent announcements. Spreads remain near historic lows, and expected returns do not fully compensate for the underlying risk.

EUROZONE SOVEREIGN YIELDS COMPRESS AS OIL PRICE FALLS



Source: Bloomberg, BNP Paribas

HIGHER TECH SECTOR CREDIT SPREADS NOT YET IMPACTING OVERALL BBB SPREAD



Source: Bloomberg, BNP Paribas

Oil has round-tripped from 70 to 120 and back again

Can oil stay at USD70?

In the face of oil doomsayers who had proclaimed that acute physical oil shortages would push the Brent crude oil price into the USD150-200 range, we have instead experienced rather the opposite since mid-May. The establishment first of a US-Iran ceasefire and then the reopening of the Strait of Hormuz as negotiations towards a durable agreement continue have driven oil prices down towards USD70-74/barrel.

Oil has thus effectively returned to its pre-conflict level, which I find a surprising outcome. The world has navigated this 3-month oil shock thanks to heavy drawdowns on commercial and strategic oil reserves (in the US, China, and Japan) together with a huge reduction in Chinese oil imports. The need to rebuild these stockpiles over time suggests a floor for oil prices on the back of this latent demand. We nevertheless reduce our 12-month oil target range to USD60-70.

European gas prices fall, but by less

Note however that European natural gas prices have not followed crude oil in returning to pre-conflict levels. From an end-February starting point around EUR32/MWh, European benchmark TTF natural gas prices then nearly doubled to EUR62 at peak, before falling to EUR41 by the end of June. European countries need to rebuild gas stocks before the winter season. As of 28 June, European gas storage facilities were 38% full, compared to 49% at the same point in 2025 and the 2022-25 average of 62%. Accounting for this near-term gas demand, we look for a European TTF price of EUR35/MWh in 12 months, suggesting modest disinflation to come from energy prices.

Recent strength in US dollar, but range-bound

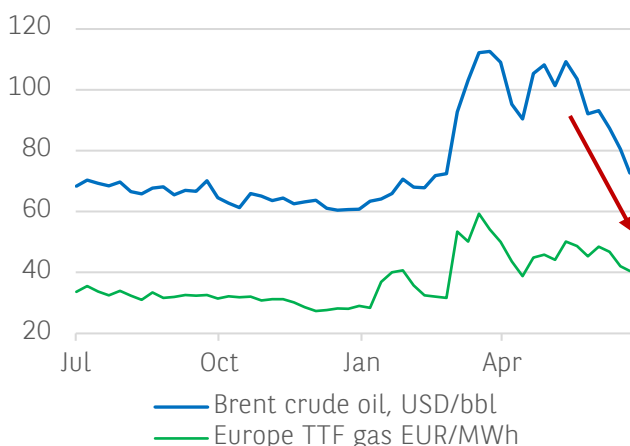
Since the start of the Iran conflict, the US dollar has appreciated against the euro, Canadian dollar, Japanese yen, Swiss franc and British pound. The key drivers for this dollar strength have been largely a) the status of the US as the world's largest oil and gas exporter and thus energy-independent, and b) the revision in Fed rate expectations since February from 2 rate cuts by December to now 1 rate hike, boosted by the FOMC's last dot plot chart of interest rate forecasts.

The notable exception has been the Chinese renminbi, which itself has strengthened consistently against the USD from CNY7.2 in July 2025 to CNY6.8 by the end of June (6% CNY appreciation). Note that this merely brings the USDCNY rate back in line with its 10-year average of CNY6.86, unwinding the sharp 2022-23 depreciation in the CNY (CNY6.3 to CNY7.3).

Overall, the US dollar index remains solidly in the prevailing 12-month range that it has established following its 10% H1 2025 depreciation (post January 2025 Trump inauguration). We continue to target a EUR/USD rate of USD1.20 per euro in 12 months, offering a modest 6% upside potential for the euro, supported by a) a cooling of Fed rate hike expectations on the back of lower energy prices, b) slowing US growth, and c) potentially slower US investment inflows from abroad.

This is consistent with our bullish outlook for gold (USD5500/ounce in 12 months versus USD4000 now), given the 25% correction that was partly triggered by USD strength and higher expected US interest rates.

**CRUDE OIL PRICES
RETURN TO PRE-CONFLICT LEVEL**



Source: Bloomberg, BNP Paribas

**US DOLLAR HAS NOT BROKEN OUT OF
ITS 12-MONTH RANGE**



Source: Bloomberg, BNP Paribas

Summary of our main recommendations, by asset class

	Current Recom	Prior Recom	Segments	We overweight	We underweight	Comments
EQUITIES	=	=	Markets	Brazil, Mexico, Japan		Neutral on Equities: While we have become more constructive on equities after the easing of tensions in the Middle East, the expected upward trajectory might not be linear. In particular, higher rates could cause some friction along the way.
			Sectors	Global Health Care, Industrials and Mining, EU Utilities, EU Banks	Consumer Staples	Industrials: Re-shoring, reindustrialisation, defence, AI and other infrastructure (re)development are major tailwinds. But higher energy prices has been a headwind for some. Health Care still undervalued, given promising new drugs, AI benefits, and the current surge in M&A activity.
			Styles/ Themes	Metals & Mining, Electrification, defence electronics US profitable SMID		Commodity-related stocks
BONDS	=	+/=	Govies			Neutral on core Eurozone sovereign bonds, favour maturities of 7-10 years. Neutral on US Treasuries (ca. 5 years). 12-month US 10Y yield target 4.50%, German 10Y bund yield 2.75%, UK 10Y gilt yield 4.3%.
	+	+	Credit	Euro IG and UK IG		We prefer the EUR and GBP IG corporate bonds (Positive view) to USD IG bonds (Neutral view) given the supply dynamics and the level of spreads. Focus on quality.
	=	=	EM bonds			EM central banks have less potential to cut rates, and we see less downside for the USD. We are Neutral on EM local and hard currency bonds.
CASH	=	=				The ECB is expected to keep the deposit rate at 2.25% to year end. The Fed should raise once in December to a 4.0% Fed Funds target rate.
COMMODITIES	+/+/-	+/+/-		Copper (+) Gold (+)		Oil (-) Negative stance. Our view in 12 months is USD 60-70, in view of a likely return to global overproduction combined with less OPEC discipline. Base metals (+) The outlook for the industrial sector is favoured by rising demand and constrained supply. Gold (+) The last correction offers higher upside potential for gold, our 12m target is USD 5,500. Silver (+) USD 90 for our 12m target.
FOREX			EUR/USD			Our EUR/USD 12m target is USD 1.20.
REAL ESTATE	=	=		Residential, Health Care, logistics/ warehouses		A slow improvement in net asset values post 2022-24 NAV adjustment should support unlisted real estate.
ALTERNATIVE UCITS				Global Macro, Long-Short Equity, Event Driven		Rising M&A volumes should support event-driven arbitrage strategies.
INFRA STRUCTURE	+	+		Energy, transportation, water		Excellent long-term returns expected from private and listed infrastructure given the long-term underinvestment.



Economic and FX forecast tables

BNP Paribas Forecasts			
GDP Growth%	2025	2026	2027
United States	2.1	2.3	2.4
Japan	1.1	0.8	1.1
UK	1.4	1.0	1.2
Switzerland	1.4	0.8	1.3
Eurozone	1.5	0.6	1.6
Germany	0.3	0.8	1.1
France	0.9	0.8	1.1
Italy	0.7	0.8	0.8
Emerging			
China	5.0	4.6	4.5
India*	7.7	3.7	6.8
Brazil	2.3	2.3	1.4

* Fiscal year
Source : BNP Paribas - 29.06.2026

BNP Paribas Forecasts			
CPI Inflation%	2025	2026	2027
United States	2.7	3.7	2.8
Japan	3.1	2.1	2.1
UK	3.4	3.2	3.1
Switzerland	0.2	0.5	0.5
Eurozone	2.1	2.7	2.6
Germany	2.2	2.3	1.9
France	1.0	2.2	1.6
Italy	1.7	2.8	1.5
Emerging			
China	0.0	1.3	1.6
India*	2.1	5.1	4.3
Brazil	5.0	4.7	5.1

* Fiscal year
Source : BNP Paribas - 29.06.2026

	Country	Spot 28/06/2026	Target 3 months	Target 12 months
Against euro	United States	EUR / USD 1.14	1.14	1.20
	United Kingdom	EUR / GBP 0.86	0.87	0.87
	Switzerland	EUR / CHF 0.92	0.92	0.92
	Japan	EUR / JPY 184	180	186
	Sweden	EUR / SEK 11.08	10.80	10.60
	Norway	EUR / NOK 11.31	10.80	10.75
Against dollar	Japan	USD / JPY 162	158	155
	Canada	USD / CAD 1.42	1.38	1.35
	Australia	AUD / USD 0.69	0.73	0.71
	New Zealand	NZD / USD 0.56	0.60	0.60
	Brazil	USD / BRL 5.17	5.30	5
	India	USD / INR 94.39	95	95
	China	USD / CNY 6.80	6.80	6.80

Source: BNP Paribas, Refinitiv Datastream. As at 29 June 2026

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