

Equity Focus

Strait into the Danger Zone

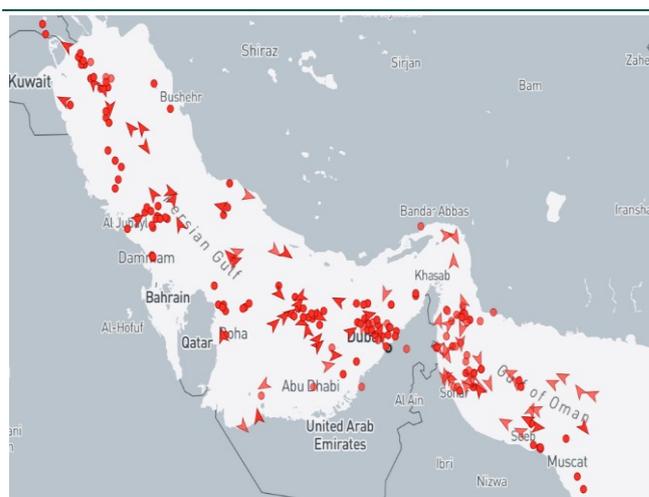
Summary

- 1. A critical chokepoint blocked** - The hostilities have led to a (almost) complete closure of the maritime traffic within the Strait of Hormuz. This means that the world economy is currently cut off from roughly 20% of global daily oil production.
- 2. Risk of stagflation rising** - For the global economy, this is a classic negative supply shock that should result in a stagflationary dynamic of higher prices and lower economic activity. The longer it lasts, the worse it gets
- 3. Remaining optimistic** - Should the flows of energy resume in the near-term future we estimate the impact on GDP growth would be limited. However, we do not think it would fundamentally derail our optimistic outlook, leaving our 2026 growth forecasts for the US and eurozone above consensus.
- 4. Equity Markets are taking it easy (for now)** - as they appear to have so far only moderately reacted to this deterioration in the risk-reward ratio. Major benchmarks have not entered correction territory and earnings expectations have been surprisingly stable.
- 5. Sectors do react** - Mainly Financials have been suffering, not only considering the economic slowdown but also due to a less favourable yield curve (bear steepening) and to issues in the US private credit market. Some deep cyclicals have also been weak, like Materials, as they are sensitive to higher energy prices. On the other hand, defensives have outperformed.
- 6. Opportunities in Software and Services?** - Risks related to AI appear to be priced in, but potential efficiency gains — and in some cases, entirely new business avenues — may not yet be fully reflected in stock prices.

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CHART 1: THE STRAIT OF HORMUZ REMAINS EFFECTIVELY CLOSED



Source: Marinevesseltraffic.com as per 17th March 2026

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Strait into the Danger Zone

“The most important thing for a return to stable flows of oil and gas is the resumption of transit through the Strait of Hormuz” (IEA Executive Director Fatih Birol)

The crisis in the Middle East is well into its third week with little signs of an imminent de-escalation. While the US / Israeli air strikes continues, the regime in Teheran is showing a surprisingly high level of endurance as it continues to attack targets across the region. Most importantly, the hostilities have led to a (almost) complete closure of the maritime traffic within the Strait of Hormuz (Chart 1). The world economy is thus cut off from roughly 20% of global daily oil production (Chart 2). Unfortunately, OPEC spare capacity is not of great help as they are almost entirely on the “wrong” side of the Strait. As a reaction, the International Energy Agency (IEA) recently announced the release of up to 400m barrels of strategic oil reserves (SPR), the biggest release ever made covering almost 1/3 of the world’s SPR. At the time of writing, Brent crude oil is trading around USD100/barrel (Chart 3), suggesting that the market is not expecting that energy flows to return to normal in the very near term. Option markets currently imply a 51% chance of oil trading above USD100 in May (Chart 4).

For the global economy, this is a classic negative supply shock that is set to deliver a stagflationary dynamic of higher prices and lower economic activity. This could pose a threat to our upbeat global growth outlook, particularly as the global economy is still adjusting to a higher and more uncertain US-tariff environment – another supply shock. The magnitude of the impact of the recent escalation in tensions in the Middle East will of course depend on the duration and severity of the conflict

– both of which are highly uncertain at the current juncture – while the extent of economic damage at the individual country level depends on the degree to which countries are net energy importers (Chart 5), as well as the reaction of monetary and fiscal policymakers.

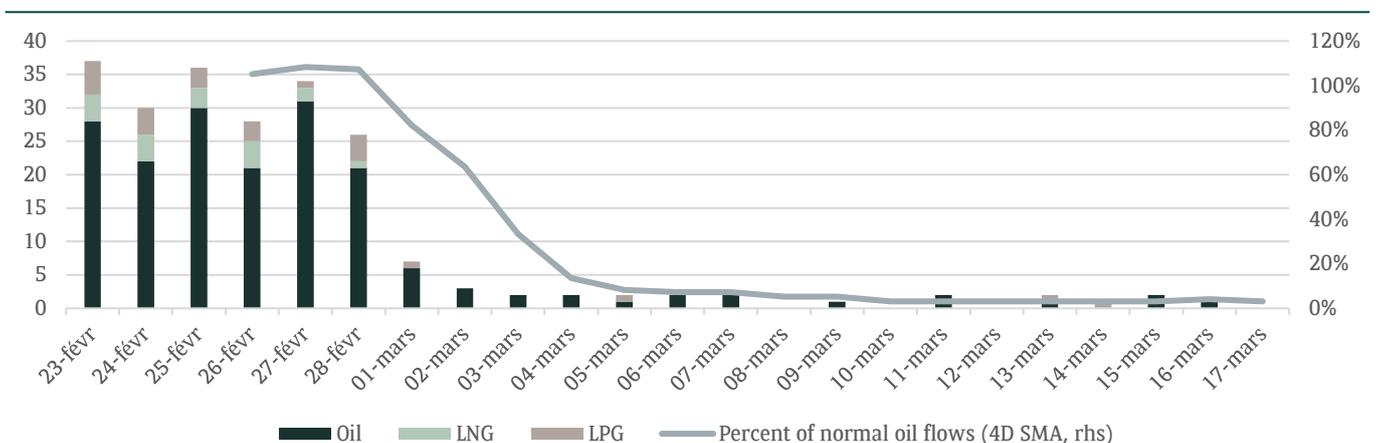
What if - challenging our optimistic growth assumptions

Should the flows of energy resume in the near-term future but oil prices retain a certain risk premium, we estimate that developed market (DM) GDP would be around 0.4% lower than in our base case (Chart 6). While this impact is non-negligible, we do not think it would fundamentally derail our optimistic outlook, leaving our 2026 US and eurozone growth forecasts above consensus.

In contrast, a scenario of a more extreme (but shorter) spike in energy prices would potentially subtract around 0.9% from DM GDP by year-end (Chart 7), raising the prospect of a global recession. The eurozone’s heavy reliance on energy imports would see it disproportionately hit: our modelling suggests that GDP would be 0.9% lower (versus -0.7% for US GDP). There are positive tailwinds, thanks to improving economic conditions and fiscal stimulus in Germany. However, we think higher energy prices would likely significantly decrease the effectiveness of stimulus, given the energy intensity of defense and infrastructure, as well as the sentiment impacts from higher uncertainty.

In contrast, as a net oil exporter, the US economy is

CHART 2: OIL STOPPED FLOWING FROM THE STRAIT OF HORMUZ



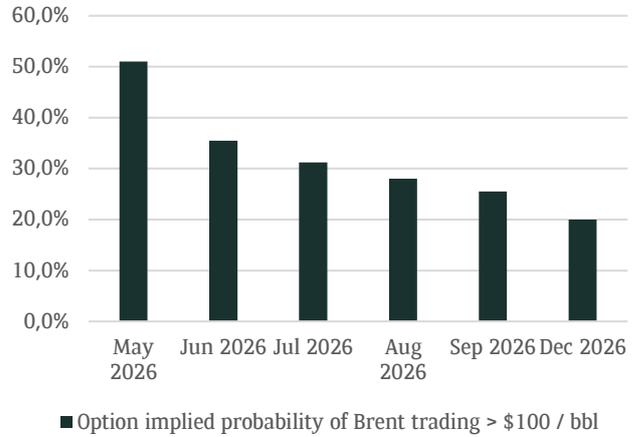
Source: BNP Paribas, Morgan Stanley

CHART 3: OIL PRICES REMAIN VERY ELEVATED



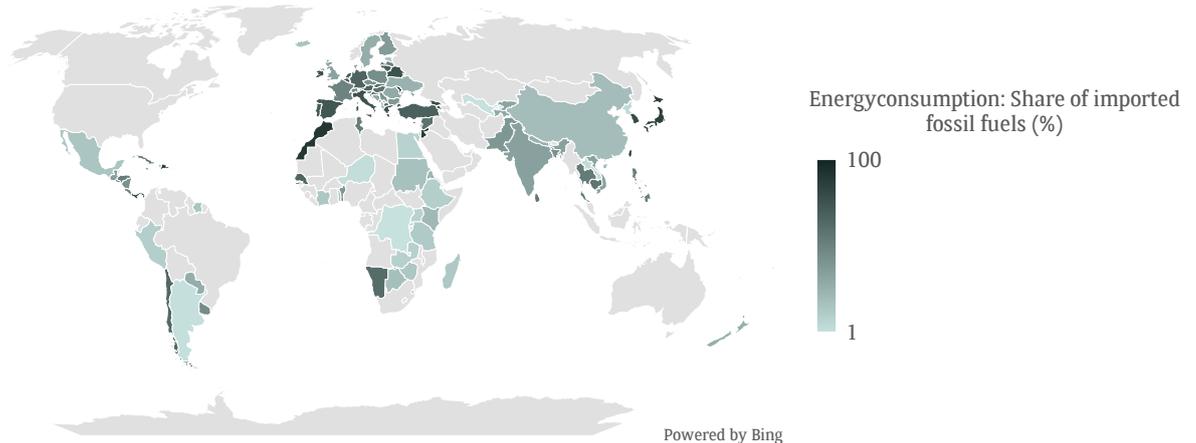
Source: BNP Paribas, Bloomberg

CHART 4: OPTIONS MARKET IMPLIED ODDS OF PROLONGED HIGH OIL PRICES



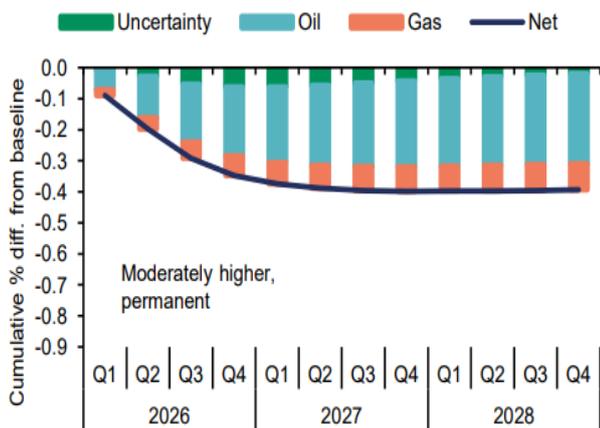
Source: BNP Paribas, Bloomberg, Data as of 17th March 2026

CHART 5: EUROPE AND ASIA LOOKS PARTICULARLY VULNERABLE TO HIGH ENERGY PRICES DUE TO THEIR HIGH DEPENDENCY ON IMPORTED FOSSIL FUELS



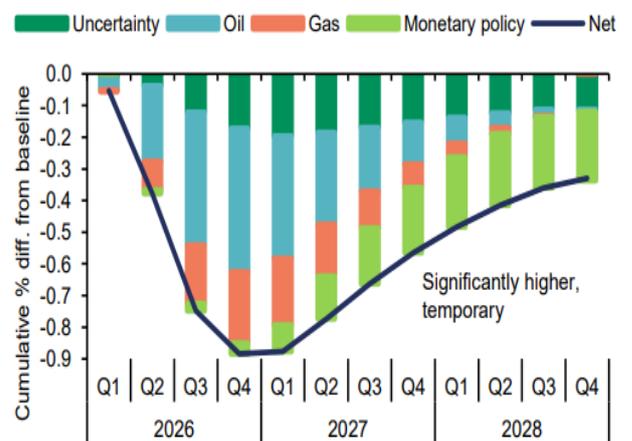
Source: BNP Paribas, Visual Capitalist

CHART 6: OIL PRICE IMPACT ON ECONOMIES* - MODERATE SCENARIO



Source: NiGM, BNP Paribas / * USA, EZ, UK, Japan, China

CHART 4: OIL PRICE IMPACT ON ECONOMIES* - SEVERE SCENARIO



Source: NiGM, BNP Paribas / * USA, EZ, UK, Japan, China

more shielded from global oil prices. Although the shock would dampen consumer real incomes, it could support GDP growth by incentivizing oil-related capex. In such a scenario, we also think that the rise in inflation would be too large for central banks to ignore, given the potential second-round effects from the initial rise in energy prices – even if growth weakens.

In the most extreme tail risk scenario of current oil price levels remaining for an extended period, we would look at a much more dire outlook. In this scenario the oil price would need to readjust to a level that destroys demand equaling the lost supply, i.e. 15-20 million barrels per day. The only time in history we saw economic activity slowing enough to reduce oil demand by a sufficient magnitude was during the first wave of COVID lockdowns in early 2020 (Chart 8).

Equity Markets are taking it easy (for now)

Equity markets appear to have so far only moderately reacted to this deterioration in the risk-reward ratio. Major benchmarks have not even entered correction territory, i.e. a fall of more than 10% (Chart 9). Price action in equities has felt – as opposed to oil – well-behaved. Looking at realized volatility however, we see that this feeling is misleading, at least for energy-dependent regions. Looking forward, implied volatilities are indicating that markets expect this nervous “range trading” to continue (Chart 10). This “price resilience” is remarkable given the above-average valuations that many indices command (Chart 11). Even more so given the notable tightening in financial conditions, something usually not good for stocks (Charts 12 & 13).

It feels as if the equity market is taking a page out of the pandemic playbook: There is little need to wait for a resolution to a problem that it knows will eventually be resolved. The forward-looking nature of equity markets,

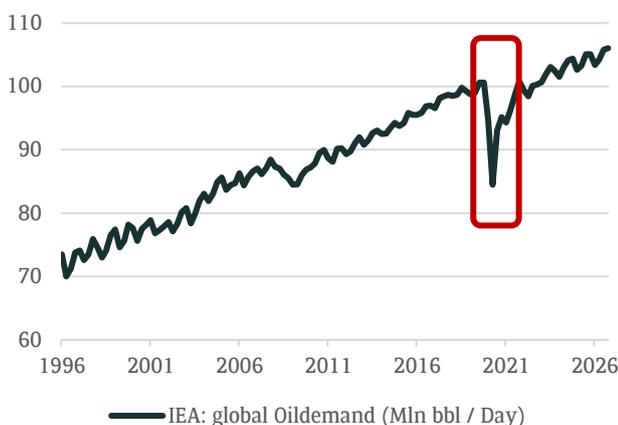
plus the potential for action (resolution) seems to be the major driver of this current resilience. This might well work, unless the solution is delayed or not as effective as the market is expecting.

Moreover, the potential impact of a more negative outcome will not be evenly distributed. The level of dependence from imported fossil fuels should give an idea the vulnerability of a given economy. It is thus puzzling to see that earnings expectations for the most “endangered” markets have barely reacted to what we would consider a notable increase of risk (Chart 14). Having said that, it is worth to keep in mind that the stock market is – in many cases – not the economy. Taking Europe as an example: From an earnings perspective, the market is dominated by Energy and Utilities (Chart 15), not Autos and Chemicals – even though the opposite is true for jobs, GDP and political focus. Another argument to explain the lack of adjustments in earnings so far might be the fact that earnings are a nominal figure. This means that slower growth could be (partially offset) by rising inflation.

This obviously only works to a certain degree. At one point, a deteriorating economy will have spillover effects into index earnings. Moreover, the current market optimism might be challenged if a solution is either not found in the near term or in a way which isn’t meeting investors (optimistic) expectations.

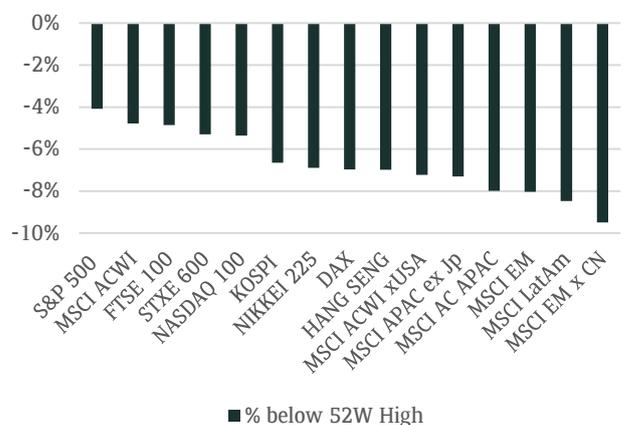
However, given our still constructive base line scenario for global growth, we think our [recent downgrades](#) towards a neutral stance on equities in conjunction with adjustments to our regional preferences represents a well-balanced reflection of the deteriorated risk- return profile of the respective markets. It remains of high importance to not only focus on regions but sectors as well due to the different growth and valuation profile.

CHART 8: A WORST CASE OF POTENTIAL DEMAND DESTRUCTION



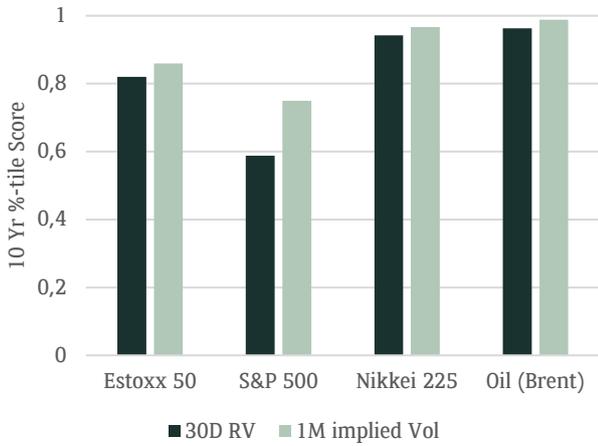
Source: BNP Paribas, Bloomberg

CHART 9: EQUITIES ARE NOT (EVEN) IN CORRECTION TERRITORY



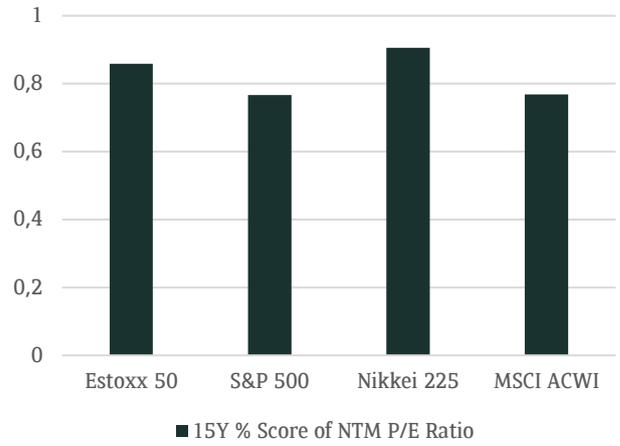
Source: BNP Paribas, Bloomberg, Data per 17th March 2026

CHART 10: TRADING IS CHOPPIER THAN IT FEELS



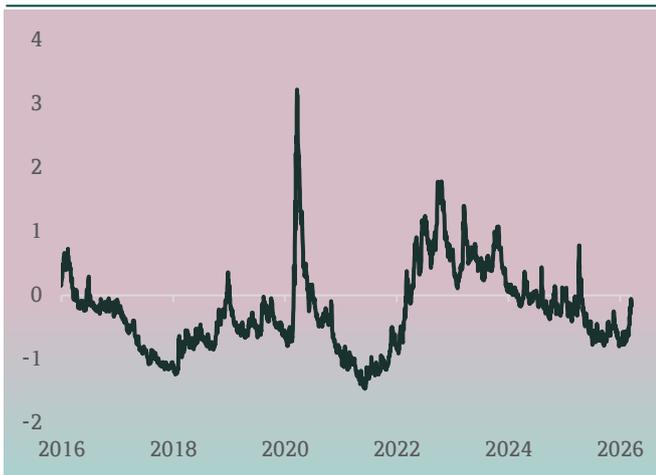
Source: BNP Paribas, Bloomberg

CHART 11: VALUATIONS ARE STILL AT THE HIGHER END



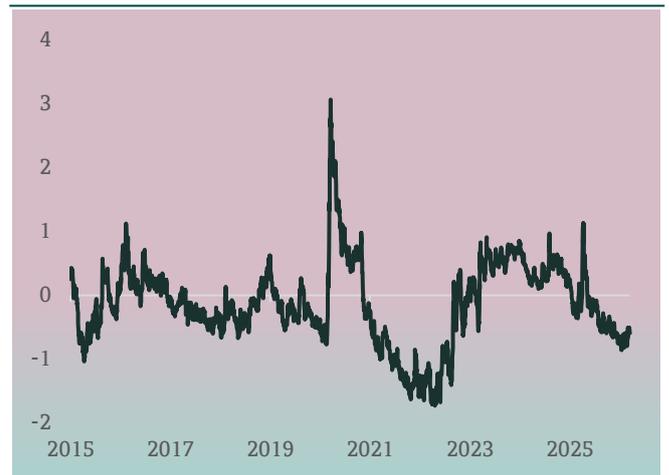
Source: BNP Paribas, Bloomberg

CHART 12: US FINANCIAL CONDITIONS TIGHTENED NOTABLY



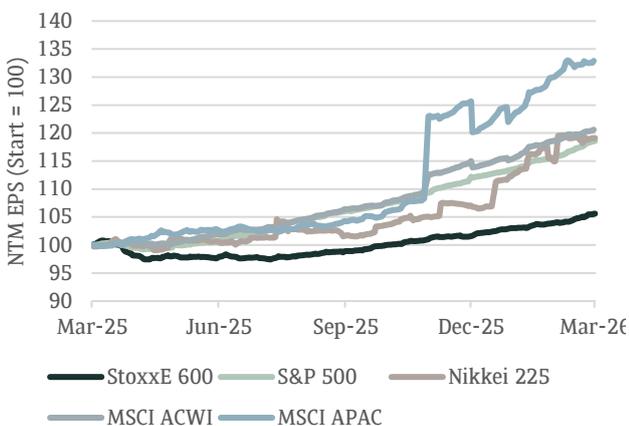
Source: BNP Paribas, Bloomberg

CHART 13: FINANCIAL CONDITIONS TIGHTENED LESS SO IN EUROPE



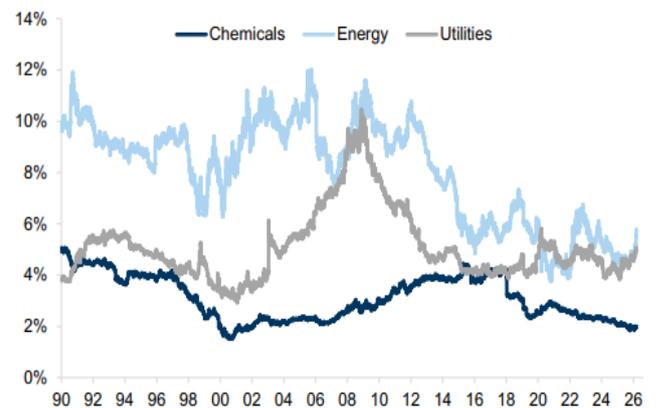
Source: BNP Paribas, Bloomberg

CHART 14: EARNINGS EXPECTATIONS REMAIN STABLE



Source: BNP Paribas, Bloomberg

CHART 15: SECTORS HAVE A SHIFTING IMPACT ON INDEX EARNINGS IN EUROPE



Source: Datastream, Goldman Sachs Global Investment Research

US and Europe Sector performances

Volatile performance

The S&P 500 has been volatile this year, even more after the Iranian crisis erupted, leading to the Hormuz strait blockade. However, the market still hesitates to significantly reduce risky positions as a resolution, or at least some sort of agreement to allow boats to pass through the Strait could be found at any time. Also, earnings growth expectations remain supportive, and it is well known that the US administration will do whatever it can to support its domestic economy before the mid-term elections.

In this context where we recommend prudence (cf. our Global equity recommendation downgrade from Overweight to Neutral), the S&P 500 has so far barely come down. As of the 10th of March, the index was down a mere -0,9% YTD.

Mainly Financials have been suffering, not only considering the economic slowdown but also due to a less favourable yield curve (bear steepening) and to issues in the private credit and private equity spheres.

Some deep cyclicals have also been weak, like Materials, as quite sensitive to higher energy prices.

On the other hand, defensives have outperformed.

But the star performer has been energy (more than 20% increase YTD) as investors scramble to 'hedge' their equity positions in case the conflict were to last longer than a couple of weeks. For the reasons mentioned, we think that going overweight energy could be speculative and risky. We stay Neutral on the sector, especially after the recent gains.

European equities among the most at risk

European equity indices had a good start in 2026, supported by anticipations of an accelerating economy. Rising real wages and big infrastructure and defense expenses were important tailwinds.

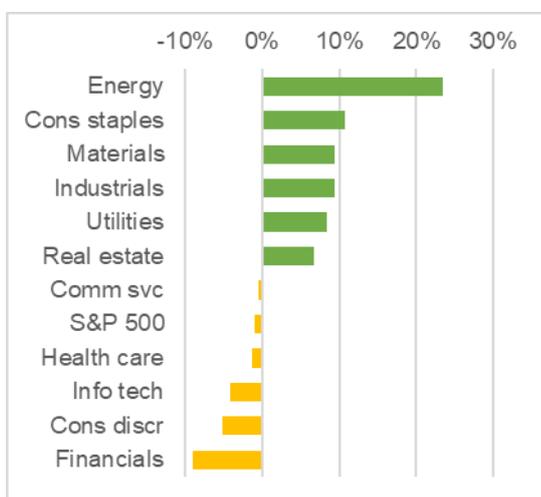
But the Iran conflict, higher energy prices and fears in the private credit/ equity space have poured cold water on these expectations. European equities have reduced their gains to +2,35% YTD (Stoxx 600 index), coming from +7% as of the end of February. Unsurprisingly, sectors that had outperformed on expectations of a cyclical recovery—often energy-intensive, such as chemicals, construction, and materials—have since seen the sharpest declines.

Consumption sectors are also suffering, particularly travel & leisure, automobiles and luxury.

On top of that, other (AI) disruption fears still affect media, certain software and services companies as well as financials (cf. private credit and private equity). **We have downgraded European Financials from Overweight to Neutral and US Financials from Neutral to Underweight (more on the next page).**

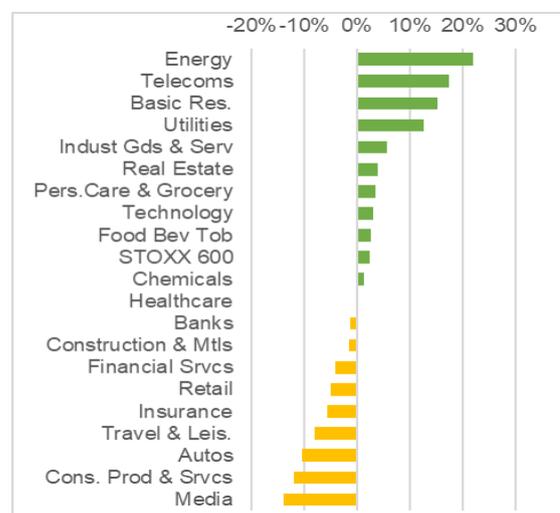
In this context, like in the US, next to energy, mainly infrastructure-related names have done well, such as telecoms and utilities. However, these sectors are not without risks: they are sensitive to bond yields, highly regulated, and face intense competition. There is no guarantee that their current favorable environment will persist, potentially triggering a new sector rotation back toward cyclicals.

CHART 16: 2026 US SECTOR PERFORMANCE YTD: ENERGY, STAPLES (RETAIL) AND INFRASTRUCTURE-RELATED LEAD; FINANCIALS AND TECH RELATED ARE IN THE RED.



Source: S&P 500, 2026 performances as at 10th of March 2026.

CHART 17: 2026 EU SECTOR PERFORMANCE YTD: ENERGY, MINING & INFRASTRUCTURE-RELATED LEAD; DISRUPTED SECTORS, EXPORTERS AND FINANCIALS POST LOSSES.



Source: Stoxx600, 2026 performances as at 10th of March 2026.

US and Europe Sector preferences & changes

The crisis in the Middle East could jeopardise the global economic recovery

Rising oil and gas prices—or their prolonged elevation—pose a growing threat to global growth. Even before the Iran conflict erupted, we were cautious on sectors most sensitive to an oil shock, such as automobile, travel & leisure, and, in general, consumption-related stocks. In late January, we upgraded the energy sector to neutral, advocating increased exposure to oil equipment and services. In the near term, niche beneficiaries of the crisis include Western fertilizer producers, given disruptions to supply routes from Asia and the Middle East. Metals and mining critical to defense keep benefiting from the ongoing geopolitical instability.

Many industrial sub-sectors remain attractive, as Western governments need to enhance their strategic autonomy, through (renewable) energy equipment and other infrastructure development, defense spending, and they also might have to consider increasing other public spending.

US Financials: downgraded from Neutral to Underweight

On the other hand, a growth slowdown would exacerbate pressures on low-rated and private credits. Investor unease is already evident in elevated redemption requests from specialized private credit and private equity funds, including those managed by major players like BlackRock. The deteriorating geopolitical context is hurting confidence and liquidity. Therefore, we downgrade US Financials from Neutral to Underweight and we recommend avoiding lower-quality financial names, particularly those with high exposure to doubtful private credit and private equities.

TABLE 18 : US FINANCIALS (UNDERWEIGHT) NOT SO EXPENSIVE BUT EARNINGS GROWTH EXPECTATIONS MAY WEAKEN

14-03-26	PE				EPS Growth - %			
	2026	2027	2028	12m fwd	2026	2027	2028	12m fwd
MSCI USA	22,5	19,2	16,9	21,4	16,7	16,8	13,8	16,4
MSCI USA FINANCIALS	15,1	13,5	12,2	14,6	9,0	11,8	11,0	9,7
MSCI USA BANKS	12,2	10,9	9,8	11,9	12,2	12,5	11,3	12,3
MSCI USA DIV FIN	18,2	16,2	14,4	17,6	11,0	12,8	12,4	11,5
MSCI USA INSURANCE	12,2	11,3	10,5	11,9	-1,6	7,6	6,2	0,6

Source: MSCI, IBES, BNP Paribas

European Banks and Financial services: downgraded from Overweight to Neutral

Europe appears less exposed to private credit and private equity markets, but it is not entirely insulated. We tactically downgrade European Banks and Financial services from Overweight to Neutral (EU Insurers remain at Neutral). That said, European banks trade at cheap valuations (average P/E < 10) and maintain solid balance sheets. Other European financials stocks are not expensive either. However, in volatile equity markets like now, valuation alone is often not sufficient to support a stock price. Furthermore, a deepening crisis would inevitably weigh on earnings (lower revenues, more bad debts, lower margins).

Conversely, a sudden de-escalation of the conflict could trigger a sharp reversal of the recent sell-off. Remember that the US administration is quite sensitive to equity market declines and to higher inflation. Hard-hit sectors, particularly consumer discretionary, certain high-quality banks, and deep cyclicals (mainly basic materials), could experience a strong rebound.

CHART 19 : EU BANKS (NEUTRAL) NOW AT RISK OF EARNINGS GROWTH LOWER THAN EXPECTED, AND OF FURTHER DE-RATING

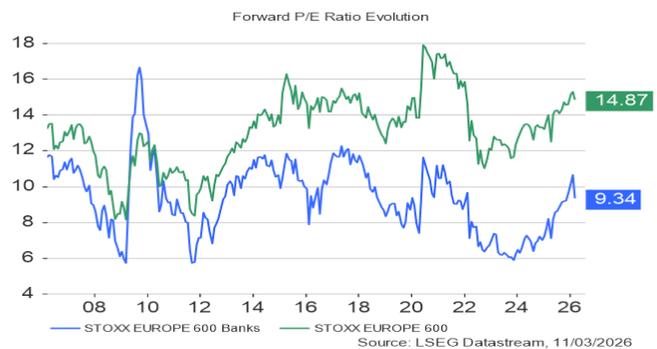
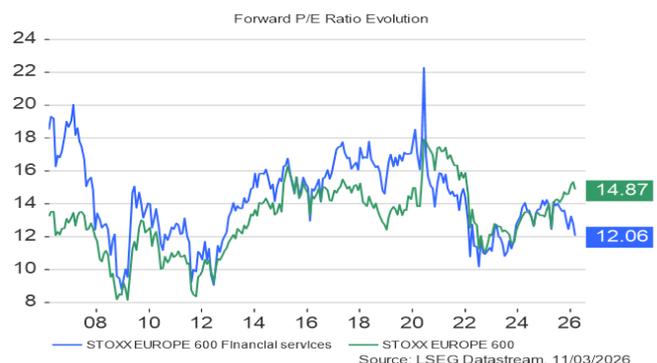


CHART 20: EU FIN. SERVICES' (NEUTRAL) ALSO AT RISK OF FURTHER DE-RATING AS EARNINGS GROWTH COULD DISAPPOINT



Focus on Software and Services sector

Volatile performance year after year

Historically, this sector was viewed as relatively stable and dependable. For investors, the primary focus was assessing medium- to long-term growth potential to determine whether embedded expectations in individual stock prices looked realistic.

In recent years, however, the industry has experienced extreme volatility. In the early 2020s, it saw significant gains, benefiting from the COVID-19 pandemic as lockdowns forced businesses and individuals to upgrade their IT infrastructure. When restrictions eased in 2022, the sector faced a sharp correction. It rebounded in 2023, driven by major advancements in AI, with "hyperscalers" like Microsoft and Oracle emerging as key beneficiaries.

The AI disruption

By 2025, AI had demonstrated strong capabilities in content generation—such as text and images—adversely impacting media (a sector we have long viewed negatively) and creative companies, including digital players like Adobe. In the second half of 2025, new AI modules further expanded into coding, basic cybersecurity, and other IT services.

This raised concerns among investors: Could AI replace large parts of the traditional software and services market? Since then, sector growth and terminal value assumptions have been called into question.

An Overreaction?

While AI progress has been remarkable, we believe it is unlikely to fully displace well-established companies. These firms have built complex systems, accumulated deep expertise, and fostered long-standing client trust—assets that are difficult to replicate. AI can enhance efficiency in certain tasks but is not yet capable of replacing entire, decades-refined ecosystems.

Moreover, many software and service providers are already integrating AI into their programming and offerings, creating new opportunities. Risks related to AI appear to be well-priced in, but the potential efficiency gains—and in some cases, entirely new business avenues—may not yet be fully reflected in stock prices. Consider, for example, the heightened cybersecurity demands that will accompany new AI developments as AI promises to offer a whole range of new applications at a much faster speed.

Attractive valuations on a historical basis

The US software and services sector (where Microsoft accounts for half the index weight) currently trades at an average fwd P/E ratio of 23x—a level last seen 9 years ago, and now marginally below the fwd P/E of consumer staples. Recent software corporate results have been robust, with earnings projected to grow +26.5% in 2026 and +12.8% in 2027 (IBES consensus). This significantly outpaces the +7% (2026) and +8% (2027) growth forecast for staples.

Moreover, amid rising stagflation risks, software profitability remains resilient, and the sector exhibits defensive qualities, including strong balance sheets and subscription-based models that ensure recurring revenue.

Europe Lags Behind

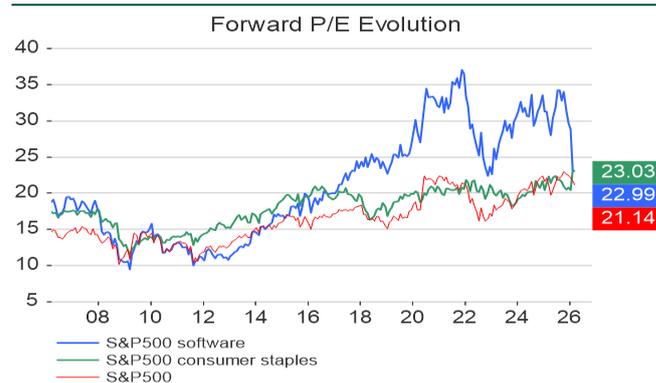
Expectations are lower in Europe, particularly after SAP (a major index constituent) released a subdued outlook. Analysts anticipate +9% earnings growth in 2026 for European software and services. Valuations have also declined: fwd P/E now at 21,3x.

Favour Quality amid Uncertainty

Given attractive valuations but persistent uncertainty, we recommend focusing on large, established, high-quality names such as Microsoft, Palantir, Palo Alto Networks, or Salesforce. Smaller players may struggle due to tighter private financing conditions, which have deteriorated significantly in recent months, and on which many significantly rely for their financing.

Investors may prefer to await Q1-2026 earnings to reassess outlooks before increasing exposure—especially to companies like SAP, which recently disappointed with its guidance.

CHART 21: US S&P 500 SOFTWARE AND SERVICES INDEX FWD P/E HAS COME BACK TO A RELATIVELY ATTRACTIVE LEVEL.



Source: LSEG Datastream, 11/03/2026



European and US Sectors in a nutshell

Sector (STOXX Europe 600)	View			YTD	Out/ underperf. vs index	Our view at a glance
	UW	N	OW			
Health Care		X		0,32%	-2,03%	Defensive compounder with attractive valuations. This sector should be a key AI beneficiary: expect efficiency gains in a structurally growing market (e.g. demographics, obesity etc). Key risks: weakening USD, tariffs. Negotiations with the US administration (lowering drug prices, etc) look more constructive now.
Industrial Goods & Services		X		5,74%	3,39%	A main beneficiary of infrastructure, defense spending, data centers construction, renewable energy projects, re-/nearshoring, and electrification although short term, there are some market frustrations that these investments are a bit slow to translate in new earnings. Higher energy prices could hurt profits in some instances.
Utilities		X		12,54%	10,19%	European infrastructure spending and energy independence willingness are tailwinds, whereas (green and AI-related) power demand continues to grow. Higher energy prices could hurt some names.
Banks	X			-1,38%	-3,73%	Cheap valuations (avg P/E under 10 again). Balance sheets are solid and profitability is high with new business opportunities. But stagflation is a rising risk. Besides, issues in the private credit business are also creating uncertainty.
Basic Resources		X		15,18%	12,83%	We like and have recommended energy transition commodities (huge needs due to AI & energy independence) and precious metals (cf. geopolitics) for a long time. Watch also metals and rare earths necessary for (electronic) defense.
Chemicals		X		1,40%	-0,95%	The sector should profit from EU infrastructure plans as well as from some end markets revivals. Strong competition from China, overcapacity, tariffs and now elevated energy prices are big headwinds, except for some fertilizer companies profiting from the Iran conflict.
Construction Materials		X		-1,58%	-3,93%	(German) infrastructure spending still a key catalyst. Rebuilding Ukraine theme still distant. Heavy side names might benefit from US-China tariffs as they produce locally. Energy prices a big headwind now.
Cons. Products and Services		X		-12,04%	-14,39%	Despite higher consumption in Europe, the sector suffers from tariffs and higher risks / costs of travelling. Chinese consumption still sluggish. Globally, some end markets have been recovering however (i.e. the USA). Be selective.
Energy		X		21,89%	19,54%	The sector is profiting from higher energy prices but it is not obvious how long it is going to last. Medium term, we like energy infrastructure, equipment and services. Necessity to develop new energy sources as some others have become unreliable.
Financial Services	X			-4,23%	-6,58%	Latest corporate results were fine but concerns have appeared relating to private credits/ equity businesses and possible AI disruption, i.e. AI startups aiming to automate some financial services' tasks (pressure on revenues and margins).
Insurance		X		-5,60%	-7,95%	Solid and rather defensive sector. Cash returns attractive but European insurance now looks fully priced at an avg fwd P/E slightly above 11. Also, there is now a risk that some private loans in insurers' books could turn sour. Be selective.
Real Estate		X		3,87%	1,52%	Defensive sector hit by rising bond yields. Logistics and data centers enjoy tailwinds from e-commerce/ AI. Be selective.
Retail		X		-5,01%	-7,36%	The sector has now found some capital discipline allowing for cash distribution. However, tariffs now putting pressure on margins as imported goods are becoming more expensive. Higher energy prices another rising cost for the sector.
Technology		X		3,04%	0,69%	Hardware and Semis related to AI have been outperforming whereas some software & services are facing the risk of business loss to AI (some others are integrating AI quite well in their programmes and solutions). Be selective.
Telecommunications		X		17,36%	15,01%	New business opportunities relating to AI. Furthermore, the industry's falling capital intensity driven by the fibre cycle & the sector's free M&A option are supporting performance. EU infrastructure plans another support.
Auto & Parts		X		-10,45%	-12,80%	Automotives still weak due to rising competition with China, high EV investment costs, excess inventories, and bad pricing. Trade tensions and higher energy prices have created further complications.
Food, Bev and Tobacco		X		2,71%	0,36%	Valuations high compared with the rest of the market and considering the sluggish earnings growth of the sector. Lack of upside catalysts except for its defensive profile. Favour 'self help' stories.
Media Price EUR		X		-13,79%	-16,14%	AI full impact on business models still unclear but very negative so far. Meta Platforms another threat as entering many (European) media businesses and grabbing more and more ads business/ market share.
Personal Care		X		3,37%	1,02%	The sector still faces headwinds from rising input costs while consumers are increasingly price sensitive. Lack of upside catalysts.
Travel & Leisure		X		-8,01%	-10,36%	Higher energy prices, travelling issues in some parts of the world, high competition and capacity expansion are big headwinds.

Sector (S&P 500 Level 1)	View			YTD	Out/ underperf. vs index	Our view at a glance
	UW	N	OW			
Health Care		X		-1,35%	-0,41%	Defensive compounder with solid earnings in a structurally growing market (e.g. demographics, obesity etc). AI to bring more efficiency gains. Further deregulation could bring extra support. Negotiations with the US administration (lower drug prices, etc) look more constructive now.
Industrials		X		9,36%	10,30%	Re-shoring, reindustrialization, defense, AI and other infrastructure (re)development are major tailwinds. But higher energy prices are a headwind.
Communication Services		X		-0,44%	0,50%	The sector is dominated by 2 mega tech companies, growing fast, but expensive now. The rest of the sector is not cheap either and is facing various challenges and opportunities. Be selective.
Consumer Discretionary		X		-5,10%	-4,16%	The sector is dominated by 2 expensive mega tech companies, facing various issues. However, their strong exposure to AI, automation and robotics keeps attracting interest. Other names in the sector could profit from a relatively resilient discretionary consumption in the US.
Energy		X		23,43%	24,37%	The sector is profiting from higher energy prices but it is not obvious how long they will remain elevated. Medium term, we like energy infrastructure, equipment and services. Necessity to develop new energy sources as some others have become unreliable.
Information Technology		X		-4,18%	-3,24%	Trading at premium vs the market. Strong earnings growth has been supportive. Some sub-sectors such as software and SaaS are however at risk of losing business to AI. Besides, huge capex spending is raising questions on hyperscalers' future ROIs and profitability. Be selective.
Materials		X		9,40%	10,34%	Medium term, the sector should benefit from reshoring/ reindustrialization/ lower energy prices. In the short term, we prefer stocks with exposure to precious metals, rare earths and metals necessary for (electronic) defense as well as energy transition metals mining.
Real Estate		X		6,71%	7,65%	Activity is still sluggish in residential RE. New construction activity is still muted. Commercial RE stabilising. Momentum is better at some logistics and specialized REITs.
Utilities		X		8,43%	9,37%	Solid growth in power demand due to AI & electrification but US utilities are not cheap anymore. Furthermore, there is now a growing risk of more controls or price caps on surging electricity prices.
Consumer Staples		X		10,77%	11,71%	The sector looks fully priced. Costs have risen due to tariffs. Besides, consumers may continue to "trade down" due to economic uncertainties. However, some names exposed to emerging markets or supposed to profit from AI have performed well recently.
Financials	X			-8,98%	-8,04%	Sector not cheap and now at risk of potential economic slowdown and problems in the private credits / equity sphere. Deregulation could bring support however.



Valuations

TABLE : GLOBAL INDICES

Index	Level	1yr Range	Forward											Composite			
			EPS	5yr Z-Score	EPS change 4 weeks (%)	PE Ratio	5yr Z-Score	PB Ratio	5yr Z-Score	Div Yield	5yr Z-Score	ROE	5yr Z-Score	Earnings Yield	5yr Z-Score	vs. ACWI	5yr Z-Score
MSCI ACWI	999		55,17		0,43	18,11		3,17		1,87		16,63		5,52		n.a.	n.a.
MSCI World	4330		224,37		0,25	19,30		3,44		1,78		16,80		5,18		1,07	
MSCI Emerging Markets	1469		109,32		-0,26	13,44		2,13		2,58		15,12		7,44		0,73	
S&P 500	6632		317,62		1,12	20,88		4,57		1,29		20,35		4,79		1,20	
S&P 500 Equal Weighted	7819		447,64		0,36	17,47		2,88		2,03		15,00		5,73		0,96	
Russell 2000	2480		99,07		-2,26	25,03		1,56		2,00		4,98		3,99		1,25	
NASDAQ 100	24381		1019,05		1,33	23,92		6,76		0,72		25,86		4,18		1,44	
MSCI USA Growth	30082		588,75		1,60	27,05		9,78		0,41		33,53		1,96		1,73	
MSCI USA Value	16142		244,22		0,57	17,49		3,14		2,08		16,67		1,51		0,97	
STOXX Europe 600	594		39,25		0,96	15,18		2,13		3,31		13,52		6,60		0,81	
STOXX Europe Mid 200	634		42,49		-0,02	14,95		1,89		3,52		12,04		6,71		0,79	
STOXX Europe Small 200	372		27,69		-1,11	13,50		1,42		3,76		10,43		7,44		0,70	
DAX	23399		1537,54		-1,32	15,25		1,81		2,94		11,17		6,57		0,80	
FTSE 100	10269		751,01		2,52	13,66		2,15		3,40		14,90		7,31		0,74	
CAC 40	7876		522,34		0,71	15,15		1,88		3,35		11,86		6,63		0,80	
FTSE MIB	43983		3579,26		-0,18	12,38		1,61		5,01		12,90		8,14		0,66	
Nikkei 225	53751		2412,88		3,52	22,31		2,50		1,69		11,51		4,49		1,17	
Hang Seng	25834		2206,15		-0,17	11,54		1,30		3,20		9,60		8,54		0,60	

TABLE : EUROPEAN SECTORS

Index	Level	1yr Range	Forward											Composite			
			EPS	5yr Z-Score	EPS change 4 weeks (%)	PE Ratio	5yr Z-Score	PB Ratio	5yr Z-Score	Div Yield	5yr Z-Score	ROE	5yr Z-Score	Earnings Yield	5yr Z-Score	Potential Upside to 12M Target Price*	vs. SXXP 5yr Z-Score
STOXX Europe	595		39,25		0,96	15,18		2,13		3,31		13,52		6,60		17%	1,00
STOXX 600 Consumer P&S	332		14,46		-1,05	23,14		3,39		2,41		14,54		4,35		30%	1,53
STOXX 600 Energy	171		11,97		11,22	14,15		1,81		3,74		12,42		7,00		-4%	0,92
STOXX 600 Food, Bev. & Tobacco	195		12,63		-0,39	15,41		2,69		3,74		16,07		6,48		13%	1,05
STOXX 600 Personal Care	176		11,11		-0,26	15,74		3,19		3,29		20,56		6,32		8%	1,09
STOXX 600 Chemicals	1142		63,68		-0,90	18,03		1,92		3,19		10,35		5,57		14%	1,15
STOXX 600 Utilities	561		31,68		1,16	17,77		2,09		3,33		11,86		5,64		0%	1,15
STOXX 600 Banks	331		35,35		1,47	9,40		1,22		5,49		13,14		10,69		23%	0,61
STOXX 600 Real Estate	128		8,22		1,84	15,43		0,87		4,88		8,54		6,44		18%	0,94
STOXX 600 Technology	648		37,28		1,43	22,83		4,59		1,33		20,57		4,40		23%	1,58
STOXX 600 Autom. & Parts	457		55,05		-4,52	8,37		0,55		4,68		5,67		12,04		22%	0,52
STOXX 600 Health Care	1117		68,59		0,14	16,34		3,28		2,49		16,55		6,14		18%	1,13
STOXX 600 Financial Services	840		59,75		0,49	14,15		1,49		3,12		9,99		7,12		25%	0,90
STOXX 600 Insurance	482		41,58		1,07	11,61		1,97		5,32		16,84		8,63		12%	0,78
STOXX 600 Telcos	306		17,66		-1,22	17,30		1,90		3,66		9,74		5,77		1%	1,11
STOXX 600 Media	341		27,75		-1,40	12,41		1,78		3,67		10,77		8,15		7%	0,82
STOXX 600 Ind. Goods & Services	1083		47,34		-0,26	23,10		4,04		2,05		16,79		4,35		18%	1,57
STOXX 600 Constrn & Materials	808		47,28		-1,05	17,08		2,27		2,81		13,18		5,85		20%	1,12
STOXX 600 Basic Resources	733		52,55		0,86	14,02		1,64		3,27		11,60		7,17		10%	0,90
STOXX 600 Retail	461		28,07		0,02	16,44		3,05		3,60		18,89		6,09		18%	1,13
STOXX 600 Travel & Leisure	249		24,85		-1,62	10,07		2,54		3,17		23,71		9,99		28%	0,73

*BBG consensus, NOT an official BNP target price

TABLE : US SECTORS

Index	Level	1yr Range	Forward											Composite			
			EPS	5yr Z-Score	EPS change 4 weeks (%)	PE Ratio	5yr Z-Score	PB Ratio	5yr Z-Score	Div Yield	5yr Z-Score	ROE	5yr Z-Score	Earnings Yield	5yr Z-Score	Potential Upside to 12M Target Price*	vs. S&P 500 5yr Z-Score
S&P 500	6632		317,62		1,12	20,88		4,57		1,29		20,35		4,79		25%	1,00
S&P 500 Consumer Discretionary	1773		71,96		-0,49	24,64		6,71		0,80		24,18		4,06		24%	1,23
S&P 500 Consumer Staples	952		41,59		0,07	22,88		6,53		2,46		28,15		4,37		10%	1,16
S&P 500 Energy	882		42,62		4,15	20,69		2,42		2,75		11,68		4,83		-2%	0,91
S&P 500 Financials	910		55,29		-0,04	14,85		2,03		2,06		13,33		6,83		18%	0,66
S&P 500 Health Care	1742		96,05		0,15	18,14		4,35		1,80		19,86		5,51		19%	0,88
S&P 500 Industrials	1391		54,79		0,03	25,38		6,31		1,32		23,95		3,94		16%	1,25
S&P 500 Information Technology	5302		213,63		2,31	24,82		10,66		0,58		40,67		4,03		36%	1,39
S&P 500 Materials	618		31,56		2,20	19,57		2,96		1,70		14,38		5,11		17%	0,89
S&P 500 Real Estate	268		7,30		-0,43	36,69		3,15		3,42		8,32		2,73		12%	1,57
S&P 500 Communication Services	439		21,54		0,84	20,37		4,53									

Our key convictions at a glance

Relative view*		USA	Europe	Japan	Emerging Markets
What we (especially) like		Energy Infrastructure, Equipment & Services	UK	Domestically exposed names benefiting from wage gains or GDP growth (including SMIDS)	Brazil
What we don't (really) like		Expensive US large caps	Exporters, Travel & leisure		Asia ex-China
Preferred themes & trades	Regional basis	Buybacks & Quality Dividend growth	Strategic Autonomy (with selectivity)	Governance Reform achievers	Chinese tech
	Global Basis	Infrastructure and industrials exposed to fiscal spending Innovation in Healthcare Metals & mining, particularly those critical for renewables, electrification and defense electronics			

* Relative view: against your benchmark

Economic, FX forecast tables

US growth outlook : strong 2026, softer 2027

BNP Paribas Forecasts

Country	2025	2026	2026- Bloomberg Consensus	2027	2027- Bloomberg Consensus
United States	2.2	2.9	2.4	1.8	2.0
Japan	1.1	0.6	0.8	0.9	0.9
United Kingdom	1.3	1.1	1.1	1.3	1.4
Switzerland	1.4	1.0	1.2	1.6	1.5
Eurozone	1.5	1.6	1.2	1.6	1.5
Germany	0.4	1.4	1.0	1.5	1.5
France	0.9	1.3	1.0	1.3	1.1
Italy	0.7	1.0	0.8	0.9	0.9
Emerging					
China	5.0	4.7	4.6	4.5	4.4
India**	6.8	6.5	7.5	6.6	6.7
Brazil	2.2	1.8	1.8	1.4	2.0

** Fiscal year

Source : BNP Paribas, Bloomberg - 23.02.2026

Euro area inflation projected to remain around target in 2027

BNP Paribas Forecasts

Country	2025	2026	2026- Bloomberg Consensus	2027	2027- Bloomberg Consensus
United States	2.7	2.6	2.6	2.7	2.5
Japan	3.1	1.9	1.9	2.5	2.0
United Kingdom	3.4	2.3	2.4	2.2	2.1
Switzerland	0.2	0.4	0.4	0.7	0.7
Eurozone	2.1	1.9	1.8	2.3	1.9
Germany	2.2	1.6	2.0	2.3	2.0
France	1.0	1.1	1.2	1.5	1.6
Italy	1.7	1.5	1.4	1.9	1.8
Emerging					
China	0.1	0.9	0.7	1.0	1.0
India*	2.4	4.1	2.0	4.3	3.9
Brazil	5.0	3.8	4.0	3.8	3.9

* Fiscal year

Source : BNP Paribas, Bloomberg - 23.02.2026

FX FORECASTS EUR

Country	Spot 25/02/2026	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
United States	EUR / USD 1.18	Neutral	1.18	Negative	1.24
United Kingdom	EUR / GBP 0.87	Neutral	0.87	Neutral	0.87
Japan	EUR / JPY 184.57	Neutral	186	Negative	192
Switzerland	EUR / CHF 0.91	Neutral	0.92	Neutral	0.92
Australia	EUR / AUD 1.66	Neutral	1.66	Negative	1.82
New-Zealand	EUR / NZD 1.97	Neutral	1.97	Negative	2.07
Canada	EUR / CAD 1.61	Neutral	1.63	Negative	1.67
Sweden	EUR / SEK 10.66	Neutral	10.80	Neutral	10.60
Norway	EUR / NOK 11.27	Neutral	11.30	Neutral	11.10
Asia					
China	EUR / CNY 8.10	Neutral	8.02	Negative	8.43
India	EUR / INR 107.34	Neutral	106.20	Negative	111.60
Latam					
Brazil	EUR / BRL 6.07	Negative	6.37	Negative	7.07
Mexico	EUR / MXN 20.26	Negative	21.24	Negative	22.63

Source: BNP Paribas, LSEG

FX FORECASTS USD

Country	Spot 25/02/2026	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
Eurozone	EUR / USD 1.18	Neutral	1.18	Positive	1.24
United Kingdom	GBP / USD 1.35	Neutral	1.36	Positive	1.43
Japan	USD / JPY 156.40	Neutral	158.00	Neutral	155.00
Switzerland	USD / CHF 0.77	Neutral	0.78	Positive	0.74
Australia	AUD / USD 0.71	Neutral	0.71	Negative	0.68
New-Zealand	NZD / USD 0.60	Neutral	0.60	Neutral	0.60
Canada	USD / CAD 1.37	Neutral	1.38	Neutral	1.35
Asia					
China	USD / CNY 6.87	Neutral	6.80	Neutral	6.80
India	USD / INR 90.96	Neutral	90.00	Neutral	90.00
Latam					
Brazil	USD / BRL 5.15	Negative	5.40	Negative	5.70
Mexico	USD / MXN 17.16	Negative	18.00	Negative	18.25
EMEA					
South Africa	USD / ZAR 15.85	Negative	16.50	Neutral	16.00
USD Index	DXY 97.70	Neutral	98.02	Negative	93.82

Source: BNP Paribas, LSEG

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