

Equity Focus

Proceed with Caution

Summary

1. **Only a Sith deals in absolutes.** We revisit our rating methodology and explain why we prefer to think in relatives
2. **An economy at the mercy of a few** – Like the stock market, the US economy has become dependent on the fate of the AI trade. This increases the risks for disappointments.
3. **Proceed with caution.** We see more things that could go wrong than right for the US market. Be it seasonality, positioning among systematic investors, valuations or the high expectations regarding the (easing?) path of the FED - the margin for errors seems to be razor thin. While there is no reason to sell now, investors should be aware that the ice is getting thinner. Diversification may help!
4. **Ghostflation.** Who is paying the tariffs? Early data suggests it's not the exporters. We think that the majority of the costs will be shared among companies and the consumer. As the consumer is weakening, margins might take the biggest hit
5. **Three reason to like Europe:** Despite the recent pause, the story of European outperformance is likely not over yet. Many structural headwinds are fading, and valuations remain attractive, especially when compared to the US market.
6. **No change to our sector views:** several key conviction calls are doing very well, such as Precious metal miners, European banks or Asian technology. We still like them. We also clarify our current stance on US technology (page 16).

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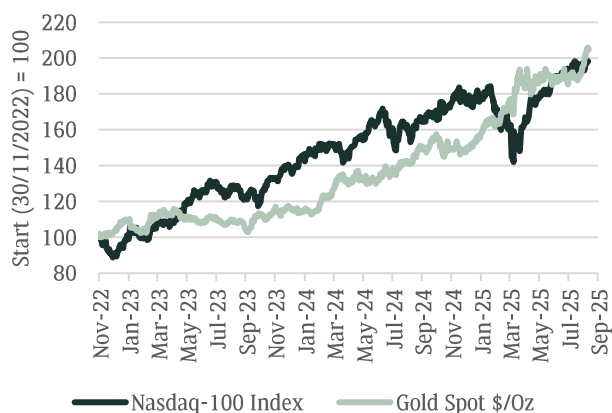
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CHART 1: GOLD BEATS AI



Source: BNP Paribas, Bloomberg



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Revisiting our Rating Methodology

"Only a Sith deals in absolutes" (Obi-Wan Kenobi)

We're living in a relative world where we measure things against benchmarks all the time, be it against our financial budgets, or personal taste or preferences. The same is true when making calls on asset allocation. Looking at markets in an absolute way would create the risk to miss alpha opportunities.

Equities are a real asset class in an inflationary world. Broadly speaking, they thus have a "natural" drift higher. The MSCI World was up in 73% of all years since 1968 and created an average annual gain of ~8,3%. Thus, an absolute view on equities would create a strong bias to express a positive view, even more if we include dividends to the return expectation.

Moreover, bonds or alternative investments such as commodities or Hedge Funds may offer more attractive (outright or risk adjusted) return perspectives, sometimes even during equity bull markets. The outperformance of Gold against the Nasdaq since the ChatGPT launch is a point in case here. We would forgo the chance to express those nuances if our published view on equities would be an absolute view.

By using the terms overweight, neutral or underweight we aim to give an advice on how much equity risk we think are worth taking in respect to a given benchmark. This can be the MSCI World or any other global index. But more importantly, our clients can take it as a guidepost against their own level of risk tolerance. Whatever percentage of equity exposure lets you sleep comfortably well at night is the right exposure to have if we're neutral. If we're overweight, running a somewhat higher allocation

could be worth considering (and vice versa if we're underweight). How much more / less depends again on individual factors such as the capacity to bear financial losses.

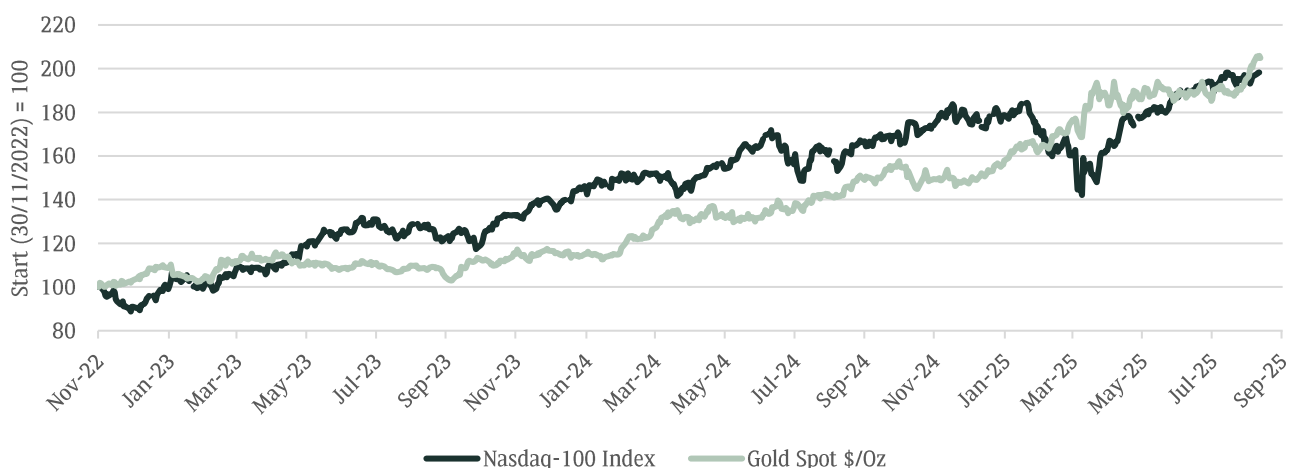
The same way of thinking is applied to our regional and eventually our sector allocation. Whatever your benchmark is, our rating will provide you with a guidance where to increase / decrease exposure in accordance with expected return perspectives.

Our current view on the equity market

We are currently neutral on equities as we feel that the risk / return prospect is not attractive enough to warrant an overweight. Equities had a strong run and valuations, especially in the US, are looking stretched. Thus, the risk of a (US-led) near term correction looks real. Thus, we want to exercise a bit of caution by not running too high equity risks now. However, this should not be mistaken as a negative view. Being neutral means that we still want to own equities!

Within equities we continue to prefer having a more diversified allocation than major benchmarks dictate. This means owning less US exposure compared to the MSCI World, owning less US Mega techs vs the S&P 500 and having more exposure towards European (prefer MDAX within), Japanese and EM equities (China still looks interesting to us). This is not because we think that US stocks will produce negative returns going forward (we don't) but because we believe that other markets will yield more attractive returns going forward.

CHART 1: OTHER ASSETS CAN PRODUCE ALPHA, EVEN DURING EQUITY BULL MARKETS



Source: BNP Paribas, Bloomberg



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Is this time different?

“Diversification is the only free lunch in investing” (Harry M. Markowitz)

In local currencies, US equities have been a suboptimal choice this year as we find many indices which outperformed their US peers, some by a wide margin. Thus, investors denominated in dollars who missed to diversify out of the US, suffered from substantial opportunity costs as they missed out on the outperformance of non-US stocks and the currency effect. Staying in US equities was an even poorer choice for euro-based investors, resulting in a negative performance (Chart 6).

Back to business as usual?

Equities had a great run since the April lows and US equities, especially US Mega Tech Companies, are back at the top of investors minds. Given the strong outperformance of US equities against their global peers in 2023 & 2024 (the S&P 500 outperformed the MSCI World ex US by 35 %-points), it feels pretty much like back to “business as usual”. The strong performance of US equities was supported by another quarter with solid and above consensus earnings while other regions struggled to catch up.

The recent gains haven’t been solely driven by earnings growth, though. Several valuation measures are close to or at record highs. The 12m forward P/E ratio is back to the highs of December. Over the last 35 years this ratio has only been higher in the TMT bubble and in the aftermath of Covid (Chart 2). The “q ratio”, measuring the price to replacement cost of assets is at a new record high. The “Buffett indicator” of market cap to GDP is back up to 223%, within a whisker of the 227% reached in 2021 (Chart 3).

CHART 2: THE S&P 500 P/E RATIO IS BACK TO ITS RECENT HIGHS



Source: BNP Paribas, Bloomberg

Robert Shiller’s most robust cyclically adjusted PE (which accounts for the increased use of buybacks over time) is just 3% below post-Covid highs and the only other time it has been higher was in the TMT bubble (Chart 7).

A market at the mercy of a few

There are plenty of reasons to become uncomfortable with the US market: its valuation, the top heaviness and the immense share US equities represent in the global market capitalization. So far, however, the outperformance seems to be justified by the stellar ability of US equities to outperform its global peers on earnings growth. Until the GFC, earnings moved basically in tandem with other regions but outpaced them since then (Chart 8). After the Covid lows, US earnings even ignited another boost. The reason: the unbelievable strong performance of US Mega Cap tech companies. Looking at data back until 2015 reveals that they’re currently playing in their own league (Chart 9). The rest of the 493 S&P companies, however, are flying at much lower altitudes. While they still outperformed their peers (apart from Japan), this was in a much more muted fashion which on itself would not justify the current valuations, neither on an absolute nor relative level. Looking at the valuation of either the equal weighted S&P or the 493 remaining stocks seems to be a good indication of where the S&P 500 should trade without the adrenaline push from mega cap tech earnings.

CHART 3: THE BUFFET INDICATOR IS ALSO POINTING TO RECORD VALUATIONS



Source: BNP Paribas, Bloomberg



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Thus, when discussing the future (long -term) prospect of the US market, the key culprit will be the ability of the Mega Cap Techs to maintain those astonishing growth rates. The odds are clearly stacked against the return prospects of a market characterized by a high concentration and valuation. As Charts 4 & 5 are showing, current readings are indicating future returns in the low single digit region for the S&P 500.

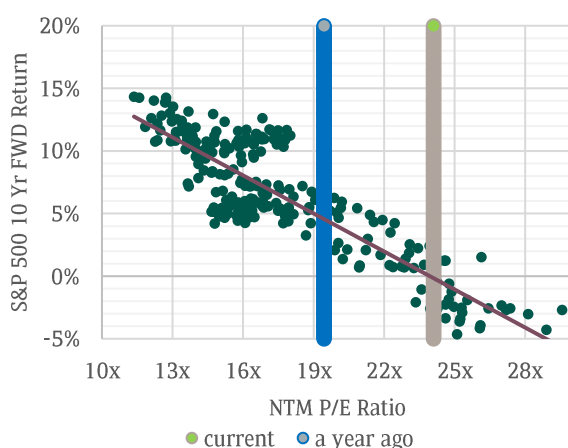
A sprint is easy, a marathon much less so

This is not the first time in history that some companies achieved strong sales growth rates and very high margins. But only a very small number of companies managed to maintain those numbers in the long run (Charts 10 & 11). Looking at the realized growth rates from the Magnificent 7, we can see that this pattern seems to be holding for this cohort as well (Chart 12). Even if consensus estimates prove to be too conservative (as they did in the past), it appears very likely that the growth rate will slow further and be it due to the law of big numbers.

An economy at the mercy of a few(?)

The ability to fund future growth from cash flows is another positive feature, attributed to this cohort of stocks. The numbers are indeed mind-blowing. According to the hedge fund Bridgewater, the tech sector's capital spending has been contributing 35%-45% of overall US GDP growth over the last three quarters (Chart 13). This is remarkable; in other words, without tech capital spending, US growth might already have converged to ~1% due to weakness in consumption. Some GDP growth impacts are exaggerated since tech equipment is partially imported from Taiwan, but the general trend is the same: tech capital spending is an increasingly important contributor to both growth and equity valuations.

CHART 4: VALUATION IS NEGATIVELY CORRELATED TO LONG TERM RETURNS



Source: BNP Paribas, Bloomberg



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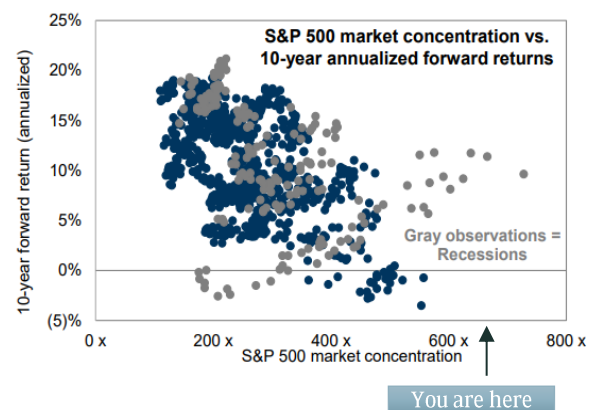
What could possibly go wrong?

Investment spending growth for the S&P 500 looked good in Q2 at 24% for capex and another 10% for R&D; but for the median stock, both grew by just 3%-4%. Looking at CAPEX spendings as a percentage of revenues, US hyperscalers are spending an increasingly large share of their revenues (Chart 14). How long this can last seems to be one of the most important questions for the US economy and the market.

A part of the answer will certainly depend on the uptake from clients and the possibility to monetize the investments – for the hyperscalers in the first place but also for the users. The good news: The number of companies talking about AI in their earnings calls has reached a new high with now roughly 55% of the S&P's constituents talking about the topic (Chart 15). The break-down per sector also shows a healthy dispersion across various industries (Chart 16).

The only problem: you can't see an AI related productivity boost in the data. While this is likely to come, the question is how companies and the market will react if things don't change as quickly as expected. The invention of the computer might provide a blueprint on this matter. It was invented back in the 1980s but its impact was visible only some 15 years later in the mid 1990's (Chart 17). It might be no coincidence, that a recent study from the MIT got some headlines. Albeit the main extract from the media that 95% of generative AI business projects are failing, with only 5% driving revenue growth might be overblown at best (and plain wrong at worst), one thing seems to clear: AI isn't the holy grail of profitability, neither is it a plug-and-play solution. For most companies, it requires systemic change, and that process introduces friction, particularly for established firms. Hence, it

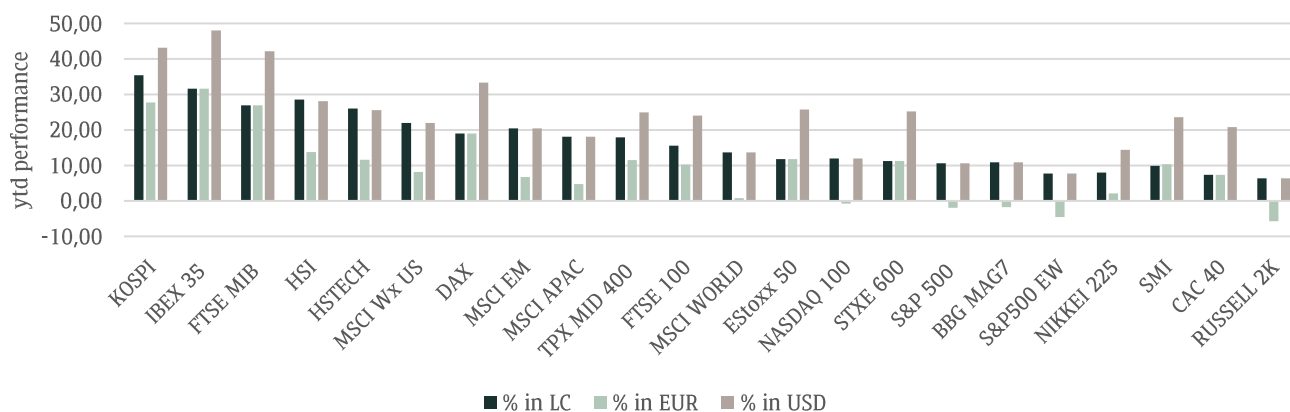
CHART 5: HIGH CONCENTRATIONS ARE A WARNING SIGN, TOO



Market concentration defined as the market cap of the largest stock relative to the 75th percentile stock

Source: Goldman Sachs Global Investment Research

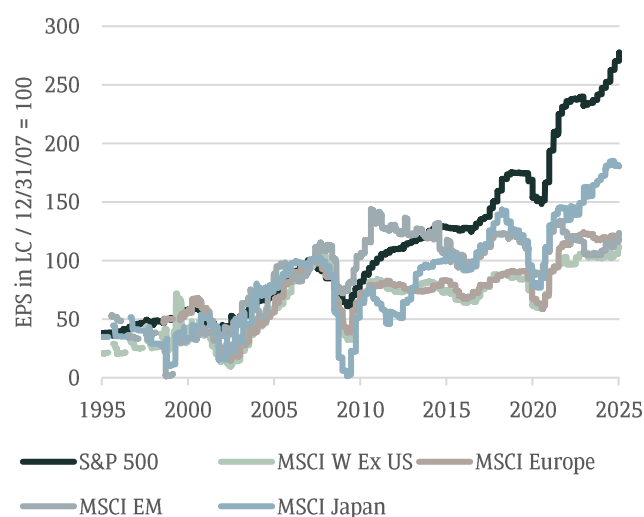
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CHART 6: DIVERSIFYING OUT OF THE US GENERATED ALPHA, BOTH IN TERMS OF PRICE AND CURRENCY RESULTS

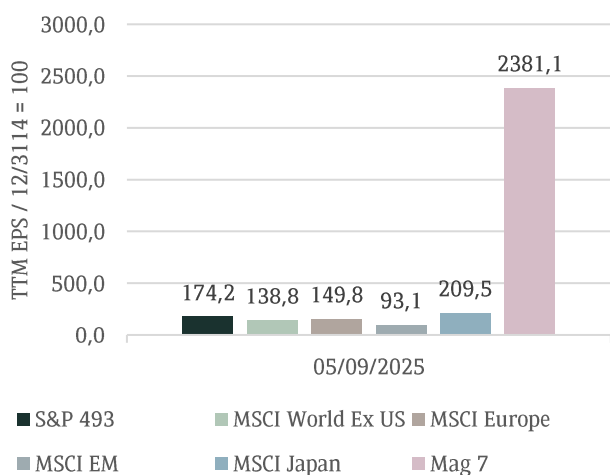
Source: BNP Paribas, Bloomberg

CHART 7: THE CAPE FOR THE S&P 500 WAS ONLY MATERIALLY HIGHER DURING THE .COM

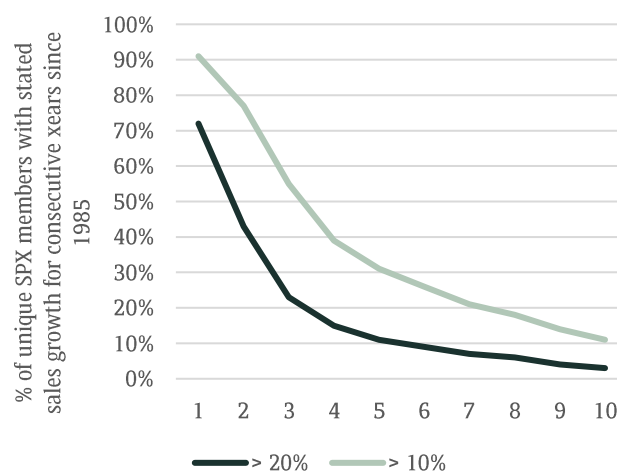
Source: BNP Paribas, Yale Dep. of Economics

CHART 8: US EARNINGS SUBSTANTIALLY OUTPERFORMED SINCE THE GFC

Source: BNP Paribas, Bloomberg

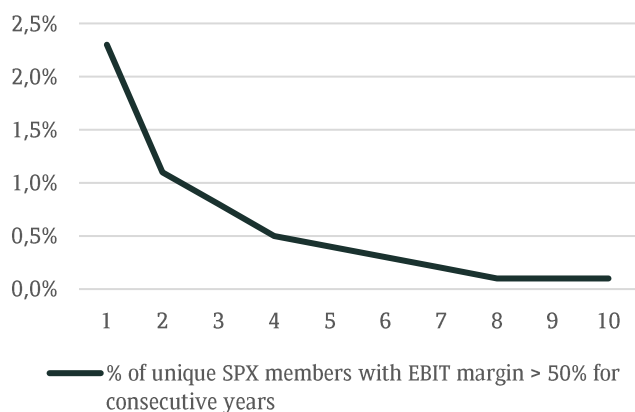
CHART 9: THE PROFIT GROWTH OF THE MAG7 HAS BEEN INCREDIBLY STRONG SINCE 2015

Source: BNP Paribas, Bloomberg

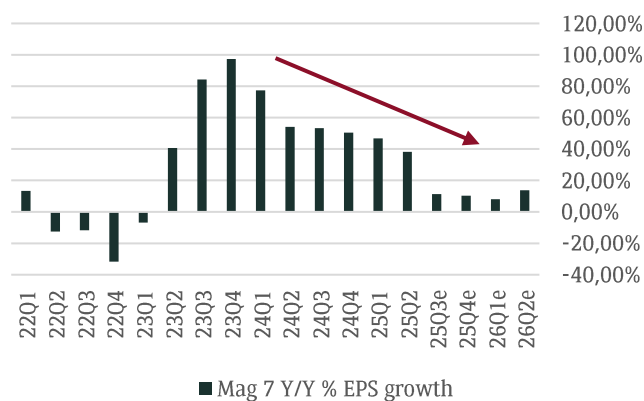
CHART 10: IT'S HARD TO MAINTAIN A HIGH GROWTH RATE IN THE LONG TERM

Source: BNP Paribas, Goldman Sachs

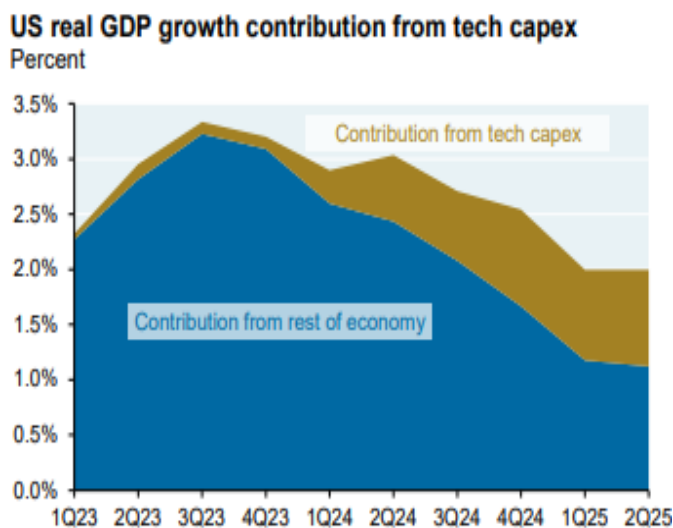

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CHART 11: MAINTAINING HIGH MARGINS IS EVEN HARDER

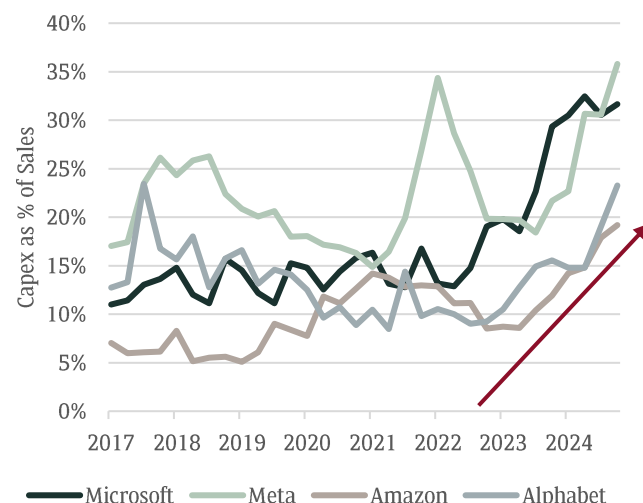
Source: BNP Paribas, Goldman Sachs

CHART 12: MAG 7 EARNINGS GROWTH IS ALREADY SLOWING

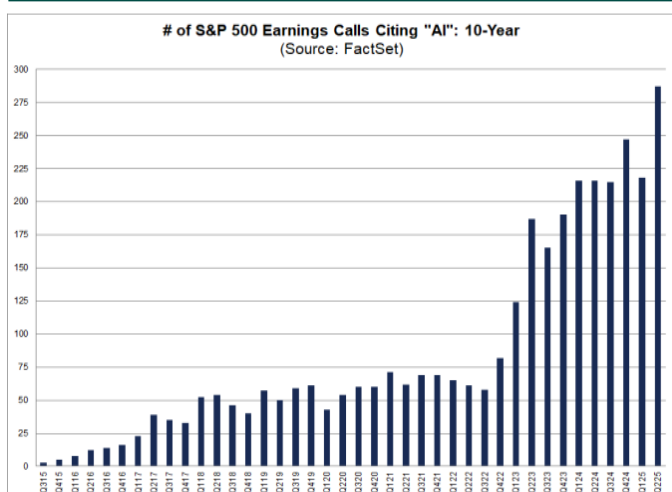
Source: BNP Paribas, Bloomberg

CHART 13: RECENT US GROWTH WAS LARGELY DRIVEN BY TECH CAPEX

Source: Bridgewater, August 2025

CHART 14: THE SALES TO CAPEX RATIO AT US HYPERSCALERS IS RISING

Source: BNP Paribas, Bloomberg

CHART 15: AN INCREASING NUMBER OF COMPANIES IS TALKING ABOUT AI

Source: Factset

CHART 16: IT AND FINANCE ARE THE INDUSTRIES TALKING ABOUT AI THE MOST

Source: BNP Paribas, Factset

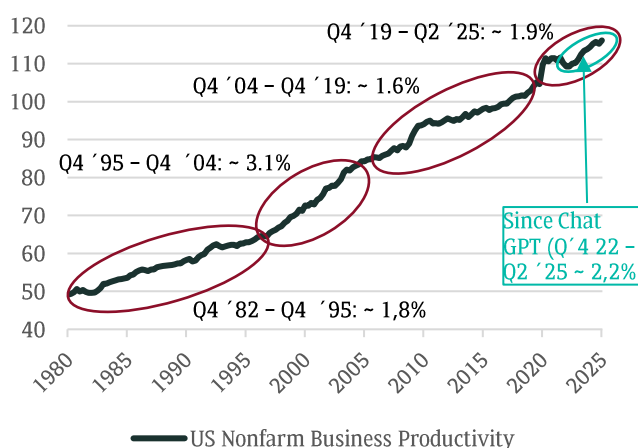

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comes with little surprise that both the number of US-companies using AI or planning to do so recently consolidated (Chart 18 & 19). With that in mind, the fact that US construction spending in Tech looks to be topping out (Chart 20), becomes worrisome. This looks to be contrary to the high level of capex spending we see from hyperscalers. However, most of this spending is focused on high performance semiconductors and other equipment. The latter though is often not manufactured in the US, and it would take years to reshore the production capacities. The US tariff regime is more of a curse than a blessing as it increases the costs of imports of IT equipment and the bits and pieces necessary to build manufacturing capacities in the US. Whether this will result in higher prices or lower margins is still unclear. The jury is still out on this verdict (see [here](#) for a more details). To make things worse, data centers are increasingly competing with private households for electricity as the US struggles to build enough power capacities to serve the growing need from AI. The result: power prices across the US are rising substantially (Chart 24), hitting their purses at a time of a weakening job market.

Danger Zone

The US market (as well as the economy) is currently depending on a few names which are flying on hopes that AI will create almost unprecedented profit growth. But there are some cracking signs to this narrative. Their investments slow and we see some writings at the wall that the sailing might not be as smooth as expected. We have no doubt that AI will reshape the economy and eventually allow companies to harvest notable efficiency gains. Until we get there, stocks will be vulnerable to any worries that it may take longer than expected for AI to boost profits to the extent that current equity valuations imply.

CHART 17: PRODUCTIVITY HAS ONLY SLIGHTLY INCREASED SINCE CHATGPT

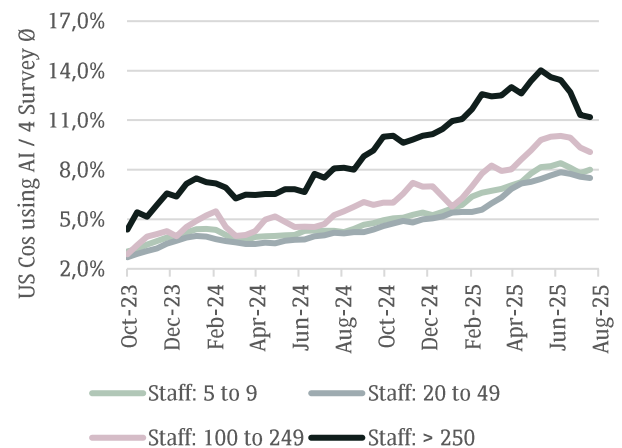


Source: BNP Paribas, Bloomberg



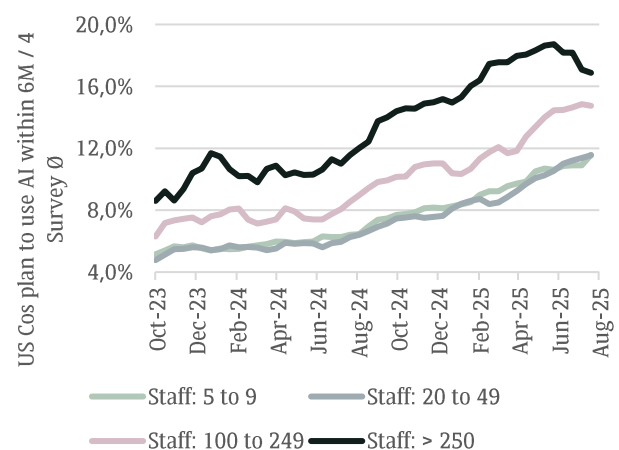
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CHART 18: THE NUMBER OF US COMPANIES USING AI IS CONSOLIDATING....



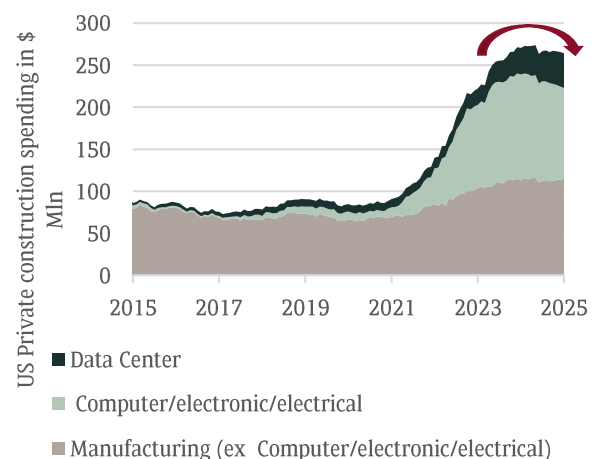
Source: BNP Paribas, US Census

CHART 19: AS IS THE NUMBER OF COMPANIES PLANNING TO DO SO



Source: BNP Paribas, US Census

CHART 20: CONSTRUCTION SPENDING IN TECH SEEMS TO HAVE TOPPED



Source: BNP Paribas, Bloomberg

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Proceed with caution

Seasonal headwinds

Sell in May and go away is among the most popular investor wisdoms. The fact that the month of September is usually the worst month of the year is less known though. While September often starts sideways, the second half usually spills performance as it is the weakest two-week-period of the year (Chart 21). This is in part explained by low buyback activities from companies and subdued retail activity. In other words, with two major groups of buyers on the sidelines, the bulls usually struggle to hold their ground.

The S&P 500 looks especially vulnerable as there are some other potentially neck breaking factors looming. Firstly, very elevated valuations as we discussed. While valuation in and of itself rarely triggers a sell-off in stocks, they have the potential to amplify a move. To get one though, a trigger is needed. One could come from the bond market. While longer dated yields retreated a bit recently, the term premium remains elevated. This has not impacted equities for now (Chart 23). Any political drama could bring this back into the markets mind though. In the short term however, the prospect of rate cuts from the Fed seems to support the market. There is one issue though: The market looks already extremely excited about future rate cuts, pricing almost 6 cuts until the end of 2026 (Chart 22). With inflation still well above target, it needs to be seen how realistic this expectation is. In any case, the Fed will have a very hard time to “outdovish” the market.

With the allocation of systematic investors (CTAs) being still very elevated (Chart 26), already a bit of

weakness could be enough to turn them net sellers. This might be enough to ignite a correction if the usual “buy the dip-suspects” stick to their seasonal patterns.

Same direction, different speed

It seems fair to say that the broad-based rally we saw in equities post the April-lows, makes all markets somewhat vulnerable. On the way up, most markets marched in tandem which has pushed correlations to fairly high levels, at least when we measure it based on absolute values (Chart 26). You can think of it as measuring the direction in which markets headed. Such high readings are pointing towards low benefits of diversification in the case of a correction. We would disagree. This is because the direction of travel might be the same, but the magnitude of travel should continue to vary in a meaningful degree. If we look at the correlation based on percentage moves, we indeed find that already today correlation levels are rather low (Chart 27), underscoring why we continue to prefer having a more diversified equity allocation than major benchmarks dictate. This means owning less US exposure compared to the MSCI World, owning less US Mega techs vs the S&P 500 and having more exposure towards European (prefer MDAX within), Japanese and EM equities (China still looks interesting to us).

CHART 21: FOR THE S&P, 2H OF SEPTEMBER IS THE WEAKEST 2-WEEK PERIOD SINCE 1950

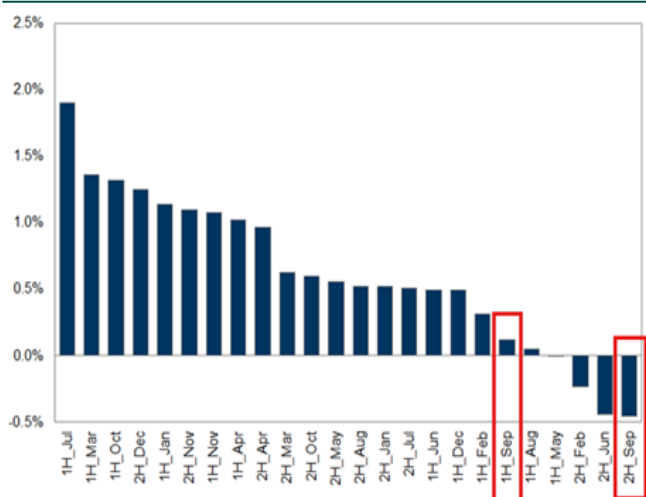
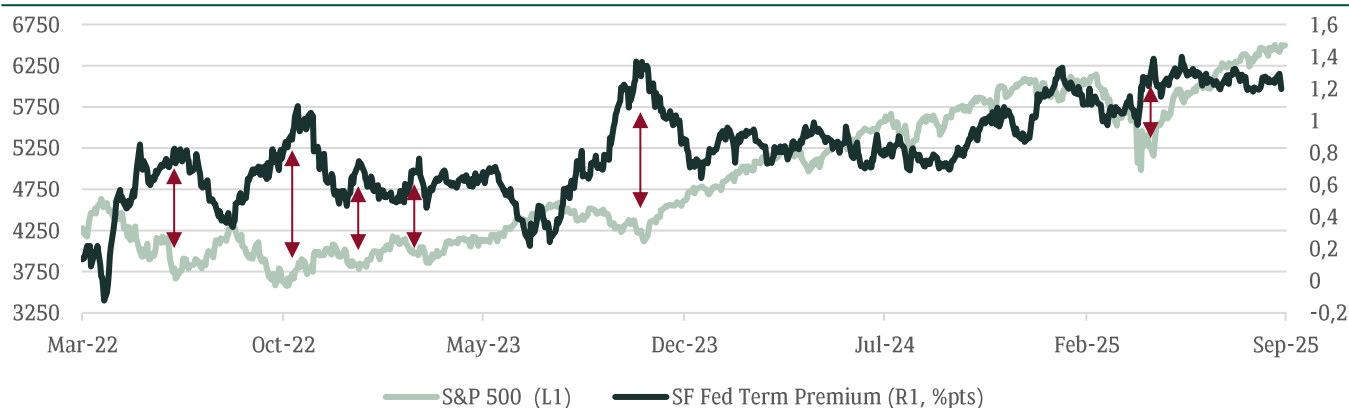
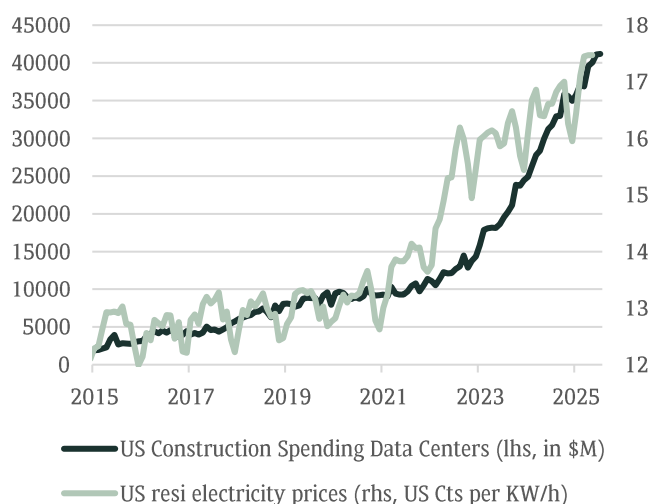
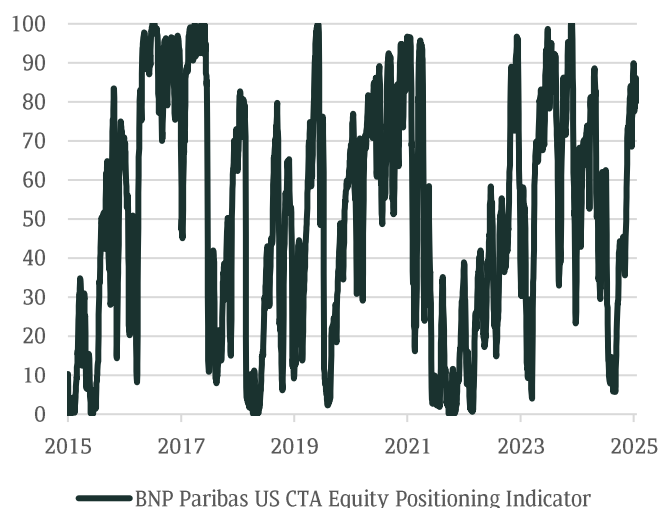


CHART 23: SHARP MOVES HIGHER IN THE TERM PREMIUM OFTEN CAUSED MARKET CORRECTIONS

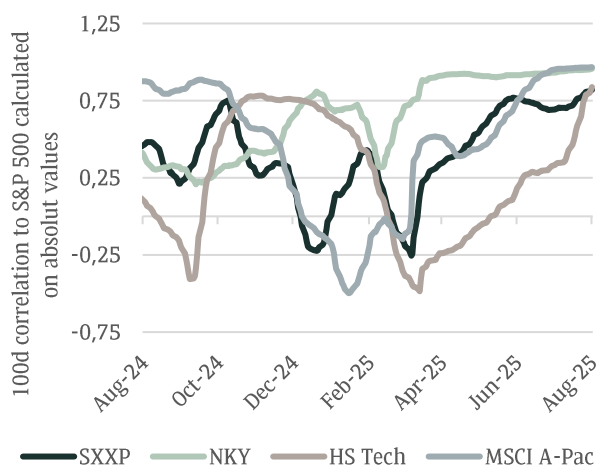
Source: Source: BNP Paribas, eia.gov, Bloomberg

CHART 24: RECENT US GROWTH WAS LARGELY DRIVEN BY TECH CAPEX

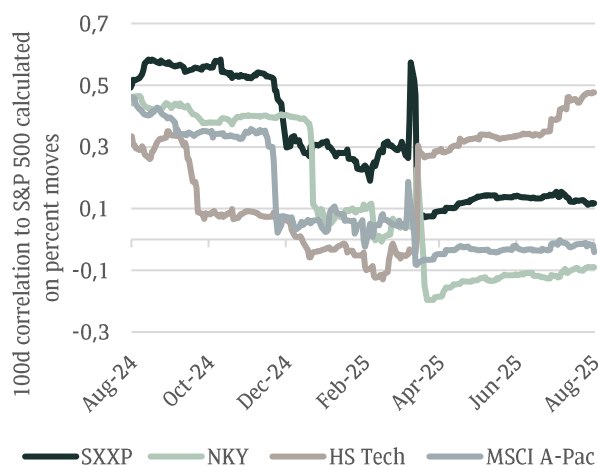
Source: BNP Paribas, Yale Dep. of Economics

CHART 25: THE POSITIONING OF US CTA'S IS ELEVATED

Source: BNP Paribas, Bloomberg

CHART 26: THE DIRECTION OF TRAVEL IS EQUAL FOR MARKETS.....

Source: BNP Paribas, Bloomberg

CHART 27: ... THE SPEED OF TRAVEL LESS SO

Source: BNP Paribas, Bloomberg


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Ghostflation, margins and the consumer – a tariffs tale

“We’re putting tariffs on China. China is now paying us billions of dollars” (D. Trump)

Even though the statement above was already made back in 2018, the mantra that foreign countries would be taking the brunt of the tariffs seems to have guided US trade policies under D. Trump since then. And indeed, tariff incomes are exploding as the effective tariff rate goes up (Chart 28).

We would still refrain from declaring “Mission accomplished” as the reality is a bit more complicated. If exporters to the US would take the hit from tariffs, import prices into the US would need to be lower as lower prices at the boarder would be needed to compensate for the price effect of tariffs. The problem: import prices are doing everything but falling (Chart 29). If tariffs are rising and import prices don’t fall, something else must give. The obvious subject would be prices. But they haven’t picked up in a material way neither (Chart 35).

Where is the impact of tariffs?

We would argue that there are two reasons for this paradox. Firstly, imports into the US surged before the tariffs as people were busy to increase their inventories (Chart 32). This means that a lot of the goods which were sold so far in the US have not been subject to import tariffs. The second reason is that tariffs are not immediately impacting everything that hits US shores. Goods shipped before implementation might be exempted. This means that the effect of tariffs is fading in over a period of a couple of weeks rather than being a binary event (Chart 33). Considering the tariff pause until August and the fact that the travel time of a container from Asia to the US

west coast is usually about 4 weeks (6 weeks to the east coast), it seems to be a fair assumption that fully tariffed goods are hitting US shores only now. We would thus assume that the real tariff effects will only be visible in the data over the next few weeks.

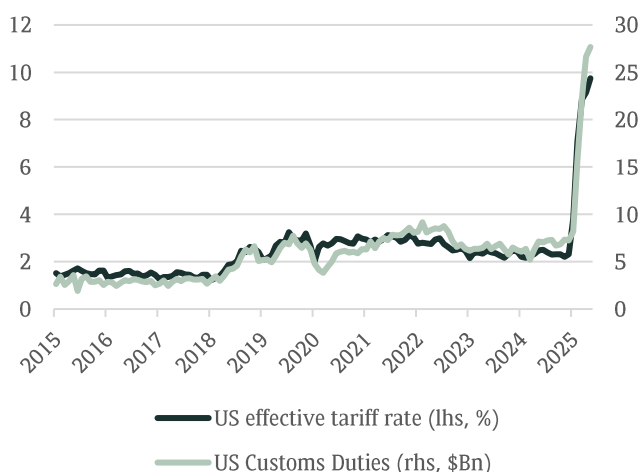
Who is paying for this?

This brings us back to the initial question: Who is going to pay for tariffs? We recently learned about an interesting theory: Exporters would offer US importers interest rate free financing on their purchases to compensate for the tariff effect. Thus, the tariff effect would never appear in economic data. While this makes an interesting story, we doubt that it will be the case, at least not to a meaningful extend. We still think the US companies and consumers are much more likely to be the ones paying the lion’s share. The only question: How will the burden be shared?

What companies can (or cannot?) do

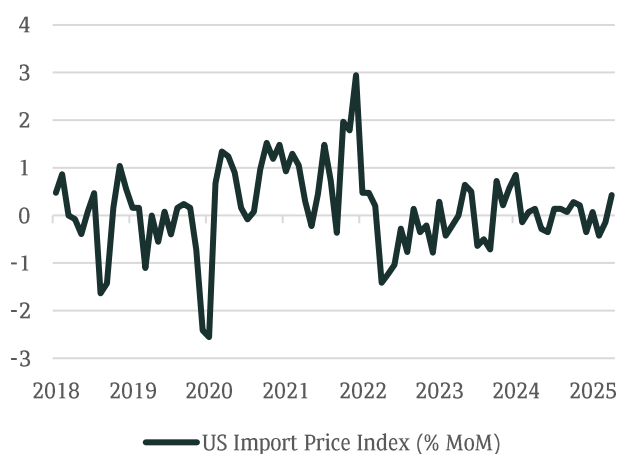
Companies so far offer a mixed picture in respect to how they deal with the impact of tariffs. According to statements during Q2 earnings calls and surveys, the “solutions” are ranging from absorbing the full impact to passing over 100% of additional costs to costumers. Obviously, mitigating strategies are also employed, e.g. trying to re-negotiate prices, changing suppliers and cutting costs (Chart 34). All of those are working only so much though and the last one is rather a worrisome solution as saving costs in the corporate world is still quite often a euphemism for cutting jobs.

CHART 28: US CUSTOMS DUTIES SOAR AS THE TARIFF RATE GOES UP



Source: BNP Paribas, Bloomberg

CHART 29: IMPORT PRICES OFFER NO HINT ABOUT EXPORTERS COMPENSATING TARIFFS



Source: BNP Paribas, Bloomberg



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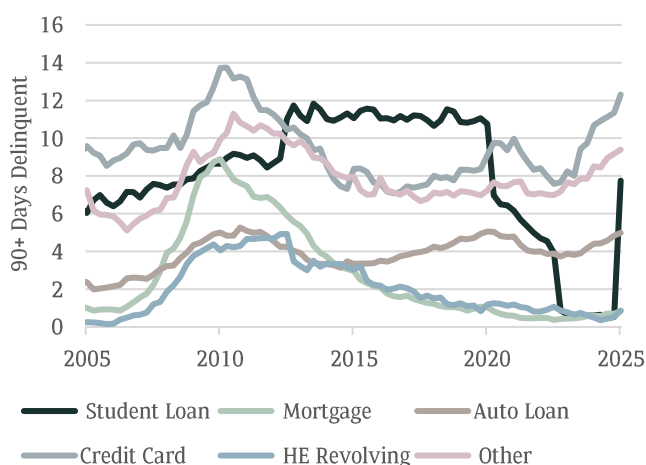
Hiking prices might be the plan, but....

Hiking prices might be the obvious way to solve the tariff issue for a company, in theory. In practice it may do more harm than good if it reduces your customers ability to afford your products. Thus, the state of the US consumer is a crucial element to keep an eye on, we think. Apparently, we enter a phase of increasing consumer stress as delinquency rates on various sorts of loans are ticking up (Chart 30). The recent end of the moratorium on student debt seems to have only worsened the situation. There are two things which are standing out. Firstly, the rising delinquencies on student debt are having an impact on people's credit scores, meaning they may find it harder to get future loans (at attractive levels). Secondly, the rise of delinquencies on cars is a flashing warning sign. When you miss the payment on the car, you may be already in a situation where you have fallen over a financial cliff. Missing car loan payments increases the chances that the car gets repossessed which means you lose a vital mobility item. Especially outside big cities with solid public transportation, a car may be your only chance to get to work. Interestingly, the search term "car repossession" recently hit an all-time high according to Google Trends (Chart 31).

....the state of the consumer may make it hard to realize....

As we see it, consumers (especially lower income cohorts) are up to a challenging time ahead. Turning back to the latest Survey of consumer expectations, we find evidence that consumers are sharing that view as the share of households expecting a worsening of their financial situation increased recently (Chart 36). The recent weakness in the job market is likely to put further stress on the consumer, especially if the situation gets worse, as some data-points are

CHART 30: DELINQUENCY RATES ARE RISING ACROSS MANY CATEGORIES



Source: BNP Paribas, Bloomberg



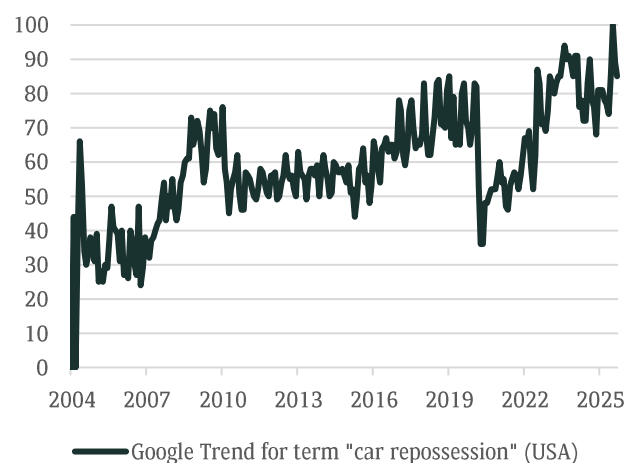
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Indicating (Charts 38 & 39). The weakening of the consumer is already visible in the market. While low income catering consumer discretionary companies already substantially underperformed the broader market since early 2024, the trend accelerated for the middle-income serving pocket (think apparel, restaurants, leisure) after the liberation day (Chart 40). Depending on the development in the job market within the next few months, US growth could slow down more substantially than we (and the market) currently anticipate. We're thus not overly optimistic about the ability of companies to pass on the majority of the impact from tariffs to consumers.

....which might put margins at risks

Either way, we see the mix of a weaker job market, slower income growth and still notable inflation as the biggest threat to corporate margins. It might limit the room for companies to increase prices without risking to jeopardize sales. Looking at consensus expectations for S&P 500 profit margins, which are at multi year highs, we don't think this risk is fully appreciated by the market (Chart 41). If such a risk were to materialize, the optimistic narrative which markets are currently employing could prove to be build on sand.

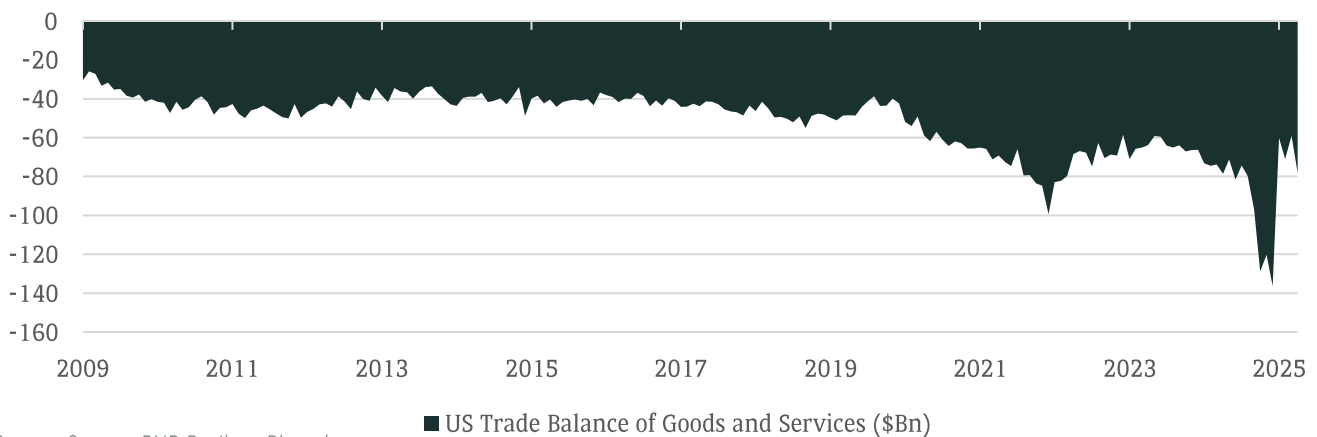
CHART 31: THE TOPIC IS MORE IMPORTANT THAN DURING THE GFC AND COVID



Source: BNP Paribas, Google Trends

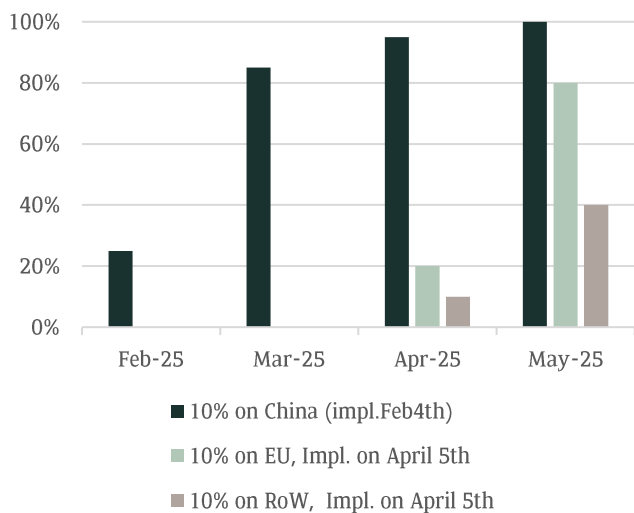
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CHART 32: THE US TRADE BALANCE SHOWS A CLEAR FRONTRUNNING OF TARIFFS



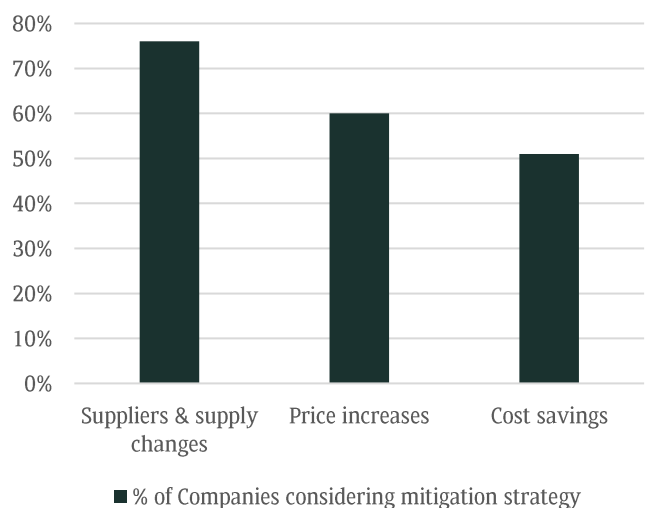
Source: Source: BNP Paribas, Bloomberg

CHART 33: THE TARIFF EFFECT TENDS TO FADE IN BEFORE IT UNFOLDS THE FULL IMPACT



Source: BNP Paribas, Dep. of Commerce, US Intern. Trade Commission

CHART 34: TARIFF MITIGATION STRATEGIES DISCUSSED DURING Q2 EARNINGS CALLS



Source: BNP Paribas, Company Data (Universe includes 100 S&P500 Cos)

CHART 35: PRICES DON'T SHOW A MATERIAL IMPACT FROM TARIFFS (YET?)



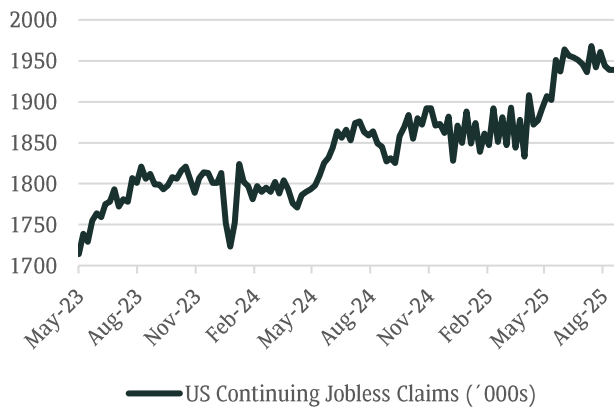
Source: BNP Paribas, Bloomberg

CHART 36: THE SHARE OF PESSIMISTIC HOUSEHOLD VIEW REMAINS ELEVATED

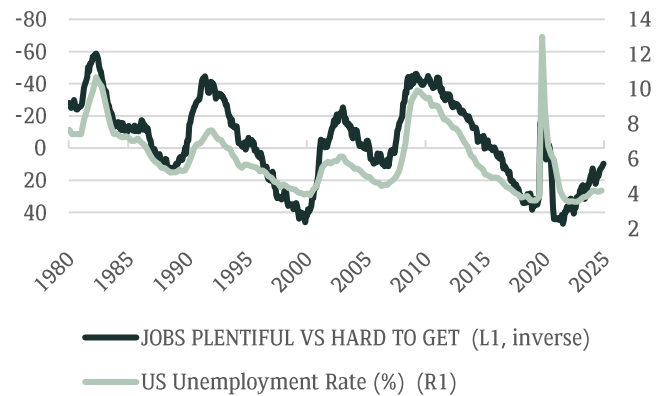


Source: BNP Paribas, NY Fed

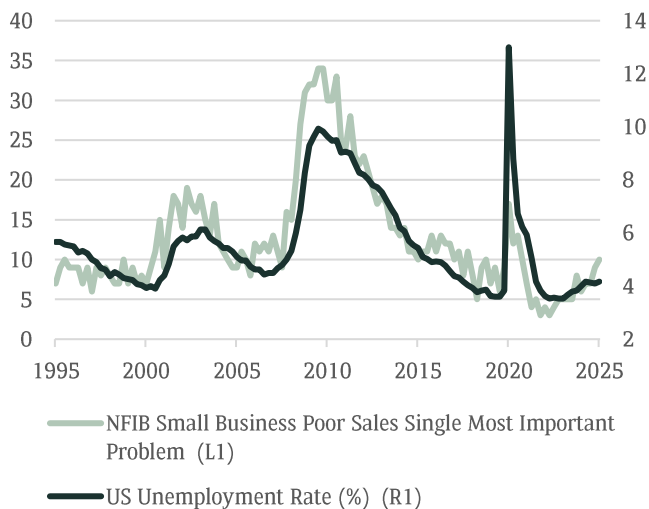

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CHART 37: CONTINUING JOBLESS CLAIMS HAVE BEEN ON THE RISE

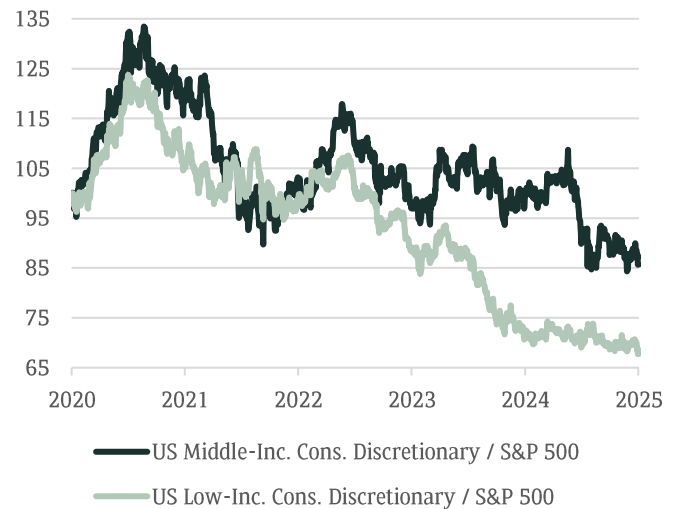
Source: Source: BNP Paribas, Bloomberg

CHART 38: THE LABOUR MARKET DIFFERENTIAL INDICATES RISING UNEMPLOYMENT

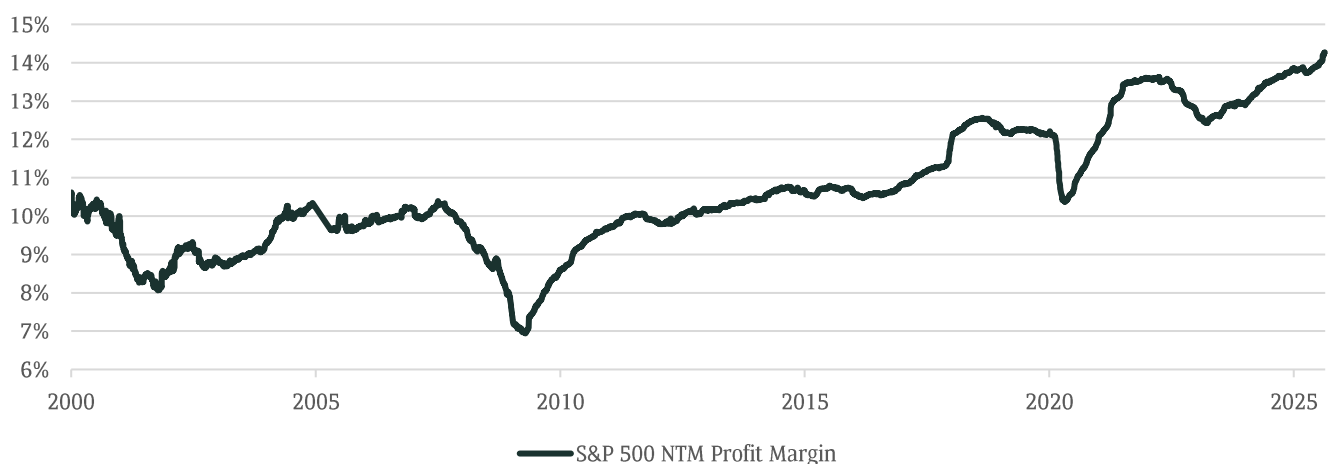
Source: Source: BNP Paribas, Conference Board, Bloomberg

CHART 39: THE SENTIMENT AMONG SME'S ALSO INDICATES A FURTHER WEAKENING

Source: BNP Paribas, Bloomberg

CHART 40: FIRMS CATERING THOSE COHORTS ALREADY REFLECT SOME WEAKNESS

Source: BNP Paribas, Bloomberg

CHART 41: MARGINS ARE AT RECORD HIGHS, EXPECTING TO GRIND EVEN HIGHER. CAN THOSE EXPECTATIONS BE MET AMID A WEAKENING CONSUMER?

Source: BNP Paribas, Bloomberg


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Three Reasons to like Europe

"We must build a kind of United States of Europe" (Winston Churchill, 1946)

After a strong start into the year, European Equities lagged their global peers over the last 3 months. We see this as a pause rather than the end. The story of European outperformance is likely not over yet as many structural headwinds are fading and valuations remain attractive, especially when compared to the US market.

Valuations.....

The Stoxx Europe 600 is currently trading at an NTM P/E ratio of 14.6, a 35% discount to the S&P 500 (Chart 42). Interestingly though, this valuation gap can't be solely explained by the impact of AI as all European sectors are trading at an above average P/E discount to their US peers. Admittedly, European stocks have been cheaper for a for a reason (such as weaker earnings growth), but we think investors might be misguided to extrapolate the historic pattern into the future.

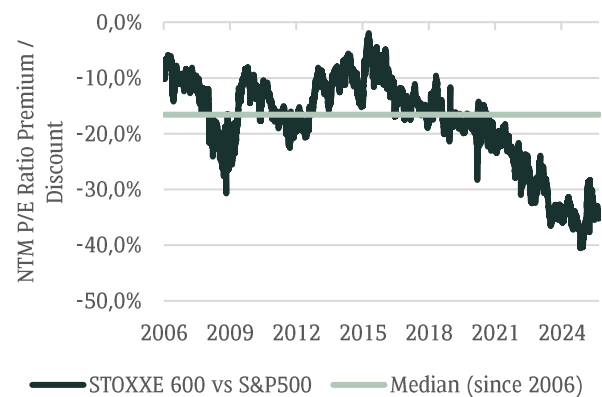
....the end of austerity.....

Cheap valuations can offer a cushion against adverse shocks, especially as within equities we see more things that could go wrong than right. More importantly though, we see a structural change. The European Union has strongly committed to deepening integration and addressing fragmentation. While this trend already started in the aftermath of the Euro crisis, the trend recently accelerated with important milestones being reached. In 2020, the Next Generation EU funds were established to address the pandemic through common bond issuance, followed by RePowerEU and ReArmEU. Europe is eventually backing the integration with money and joint economic initiatives. Other initiatives such as the creation of a real capital market union are on the way. This, in conjunction with the German infrastructure spending plans, is making us comfortable in believing that the times of austerity are over, erasing another headwind for the relative performance of EU-equities (Chart 43).

....and a weaker dollar.

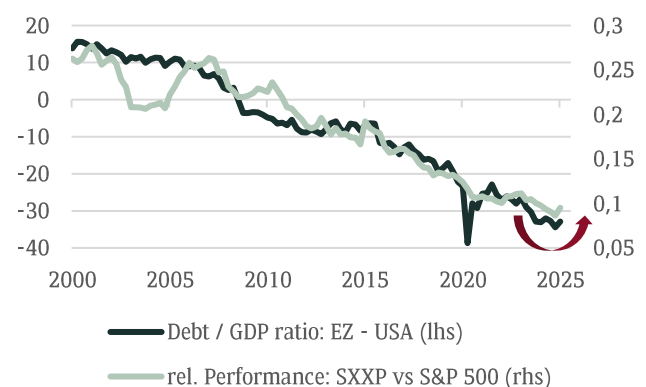
Citing a weak dollar (Chart 44) as an argument in favour of European equities might sound counterintuitive as it provides a headwind for EU-exporters. However, growth in Europe is expected to pick up, meaning the relative importance of exports should decline, dampening the risks steaming from a strong Euro. Moreover, a stronger Euro is increasing the attractiveness of Euro-denominated assets within global (USD denominated) portfolios.

CHART 42: EUROPE STILL TRADES AT A BIG DISCOUNT VS THE US



Source: BNP Paribas, Bloomberg

CHART 43: END OF EUROPEAN AUSTERITY ERASES A STRUCTURAL HEADWIND



Source: BNP Paribas, Bloomberg

CHART 44: THE BEGINNING OF A NEW BULL MARKET FOR THE EURO?



Source: BNP Paribas, Bloomberg



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Q2-25 Earnings reporting season review

USA

We expected a strong earnings season, better than what the IBES consensus of analysts forecasted. Published results were actually much better than the expectations, at around +12,6%, i.e. a positive surprise of +7,6% compared with the market's expectations. Typically, US corporate results beat expectations by around +4%. The S&P500 reacted positively to this, gaining a bit more than 4% in July-August.

As in previous quarters, banks announced strong results, which shows a US economy in relatively good shape. Most other sectors also did well.

Although front loading has certainly contributed to the good results, it seems that so far, supply chains have not been affected much by the new tariffs. Though it could still have a significant effect in the quarters to come, tail risks of much higher inflation and of recession are dwindling.

Furthermore, many (large) US companies have been supported by the falling USD and the lower energy prices.

Most impressive results were disclosed by AI related companies such as Broadcom or Oracle. Their business is thriving, and their order books are filled for a long time. Other (tech) companies less involved in AI are at risk of losing some business to AI and tend to de-rate. We would be careful in the short term with these companies threatened by AI.

US consumer staples, real estate and utilities' quarterly results were much less impressive. These sectors underperformed during the Summer.

Europe

Results were also quite better than IBES consensus' expectations, at +4% year on year. This is a positive surprise of +5% against the -1% that was expected early July. Full year 2025 European earnings growth expectations are now 0%.

European financials, banks in particular, announced solid results. They continue with their great momentum and outperformance. We reiterated our conviction call on European banks early July, as we estimated they still had an upside potential of at least +17%. This sector has recorded the best performance in July-August, i.e. circa +10% (see further).

Next to Financials, the more domestic European sectors announced good results, especially those sectors exposed to infrastructure and to the 'EU strategic independence'.

Health care also did well as well as technology.

European tech however did not react that positively to H1 results, as new forecasts were somewhat disappointing. The big EU semiconductor companies face issues to export to China and/ or still face a relatively sluggish business as some of their end markets (automobile, industrials, China) are still under pressure. Besides, as with other exporting sectors, the relatively strong euro is biting.

Disappointing results mainly hit basic materials/ chemicals, consumer staples, discretionary, real estate and communication services.

TABLE 1: EXCELLENT Q2 EARNINGS SEASON IN THE USA, PARTICULARLY TECH RELATED SECTORS, FINANCIALS AND HEALTH CARE.

Sector	Sales growth	Sales surprises	Earnings growth	Earnings surprises
	YoY%	YoY%	YoY%	YoY%
Consumer Discr	5,20%	2,36%	5,15%	11,76%
Consumer Staples	1,35%	0,51%	-0,92%	2,73%
Energy	-6,75%	3,76%	-19,81%	8,19%
Financials	4,36%	0,67%	16,28%	8,96%
Health Care	10,90%	2,76%	8,14%	8,36%
Industrials	3,76%	1,63%	1,60%	5,62%
Info Technology	15,79%	3,15%	22,77%	5,70%
Materials	7,01%	0,96%	-2,60%	-0,13%
Real Estate	5,98%	1,87%	1,25%	1,28%
Communic. Serv.	9,05%	2,24%	44,61%	12,12%
Utilities	7,50%	3,47%	0,59%	4,85%
S&P 500	6,25%	2,11%	12,62%	7,58%

TABLE 2: GOOD Q2 EARNINGS SEASON IN EUROPE, PARTICULARLY FINANCIALS, HEALTH CARE, INFO TECH AND UTILITIES.

Sector	Sales growth	Sales surprises	Earnings growth	Earnings surprises
	YoY%	YoY%	YoY%	YoY%
Consumer Discr	-4,73%	-1,63%	-32,81%	-0,82%
Consumer Staples	0,71%	-1,50%	0,20%	2,81%
Energy	-8,98%	4,49%	-23,15%	3,36%
Financials	-3,01%	-6,16%	11,91%	10,63%
Health Care	4,81%	0,47%	19,82%	5,03%
Industrials	3,08%	-0,32%	6,45%	0,78%
Info Technology	4,25%	-0,52%	51,49%	6,20%
Materials	-5,31%	-2,79%	7,71%	-20,39%
Real Estate	3,19%	2,48%	4,80%	1,40%
Communic. Serv.	-1,48%	-0,48%	4,75%	-3,85%
Utilities	-1,69%	-6,75%	5,58%	12,50%
STOXX 600	-1,93%	-1,43%	3,94%	5,14%



US Sector allocation & review

No change to our US sector allocation this month.

Summer performance review

The sector performance ranking in the Summer was very correlated to earnings. **Those sectors for which results and perspectives appeared very good recorded the best performances on the stock exchange, particularly IT related sectors.** All these sectors outperformed the +4.68% recorded by the S&P500 between the 30th of June and the 9th of September.

The Materials sector also outperformed, mainly thanks to **precious metal miners, performing particularly well this year** (see chart 46 and more on the next page). We stay positive on these.

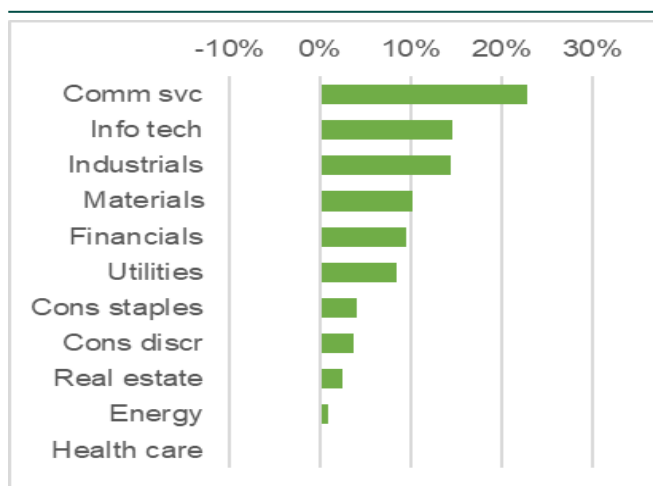
Besides, for cyclicals names, a surprise over the Summer has been the **resilience of the US economy** despite uncertainties related to tariffs. US exporters were also supported by the lower USD.

Therefore, the worse performers were the defensive sectors. Consumer staples has even been in the red this Summer. We have globally been cautious on staples for a long time, and we stay so.

Healthcare is somewhat recovering, as no major reform has been finalized yet in the US, despite a certain pressure being maintained on health care companies to lower their prices. **Note that biotech is performing particularly well the last few months.**

Utilities sector has been consolidating. We remind that this sector should benefit from AI and electrification in general. Power needs are huge.

CHART 45 : US SECTOR PERFORMANCE YTD: INDUSTRIALS LEADING ; CONSUMER DISCR., ENERGY AND HEALTH CARE IN THE RED.



Source: S&P 500, 2025 performances as at 8 September 2025.



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Our current stance on US technology (underweight)

Momentum in IT has been strong recently, mainly thanks to AI. It is becoming clearer which companies are winning and which ones are losing. Hyperscalers with good exposure to AI have announced solid H1/ Q2 results, and they keep outperforming.

Other big tech names, less exposed to AI and facing various difficulties (absence of new big hit products, sluggish/ complicated business in China, risk of market share loss to AI) have underperformed.

Considering that the US economy has been very resilient, with earnings much better than expected and with several rate cuts now expected, **our cautious stance on US growth stocks looks less needed in the short term.** Medium term, we stay cautious on technology due to the high valuations,

In the meantime, we think that the current (AI) hype could last longer, supported by a more favorable economic context. **When investing in technology/ AI, be selective however and favour AI related companies having announced solid results and perspectives.**

Avoid expensive names that are or that could lose business to AI, especially among software and services companies. Many corporate and public services also have to re-orient part of their budget towards AI related developments. In the US, some consulting businesses have seen their order books being reduced by the DOGE department.

CHART 46 : THE DOW JONES PRECIOUS METAL MINERS INDEX HAS MORE THAN DOUBLED SO FAR IN 2025.



Source: Dow Jones, BNP Paribas

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Further upside for precious metal miners

Precious metal mining companies have been among our key conviction ideas since September 2024. We have been of the view that the upside foreseen by our commodity strategists should boost the profitability of those companies. Such an improved earnings outlook would also allow the valuations to re-rate higher.

Since we made this call, the NYSE Arca Gold Miners Index (AGM) have gained 88% and the Solactive Global Silver Miner Index (GSM) has even managed to soar 113% (both in USD as of 09/09/25 / Chart 47). Interestingly though, the P/E ratio on AGM is essentially unchanged despite the strong performance. The index was trading at an NTM P/E ratio of 13.6 when we made our call and now trades at 14.3. The re-rating for the GSM was slightly larger with the P/E ratio moving from 18.8 to 20.4. None of those readings looks expensive though as they either sit at (SGM) or below (AGM) long-term averages (see Chart 48).

The case for future earnings growth

Mining companies tend to have a rather high proportion of fixed costs in this asset-heavy industry. Companies must carry out regular maintenance on mines to keep them running, and machinery needs to be available and serviced as well, irrespective of the capacity utilization. Thus, those companies have a high operating leverage. Albeit the relationship is not linear, every additional dollar earned from higher prices will increase pre-tax profits by a significant amount. Therefore, this price increase (forecast by our commodity strategy team) should provide an additional boost to earnings.

Based on the most recent relationship between the gold price and earnings, we find that between 2023 and today, profits rose on average 2.84 times faster than the gold price itself. If we apply our gold price

forecast and adjust the current consensus earnings estimate with a more defensive multiplier of 2.5, we end up with a further upside of 30% for the index due to higher earnings. If we apply the same methodology to the GSM, we find a higher dispersion in the relationship between earnings and silver price growth (3 for 2024 & 8.6 for 2025). We take this as an indicator that the Silver price has hit an inflection point for profitability during the last 12 months. Thus, applying a lower multiplier for our forward-looking calculations looks appropriate. Accepting the high level of 8.6 for 2025 while applying 2.5 (in line with what we used for Gold) for next year, we end up with a theoretical price upside of ~30%.

The calculations assume that current earnings forecasts are somewhat tied to the Bloomberg consensus forecasts for Q2 2026 (Gold: USD 3400/oz / Silver: USD 38/oz) and a stable P/E ratio.

Obviously, those are overly simplistic calculations and should be viewed as such. On the other hand, these numbers still look conservative compared with the long-term picture. Over the last 10 years, gold has surged by 229% while the earnings of the AGM have risen by a whopping 1090% (a factor of ~4.8). As for Silver, the factor since 2019 has been smaller though, standing at ~1.4. While this looks less encouraging, we would highlight that the earnings in 2021 were almost twice as high as today (EPS of 17.5 in early 2021 vs 9.7 today) while Silver was trading between USD 25 – USD 30/oz.

Either way, these numbers are not meant to be exact forecasts, but a rough idea of the further upside investors could expect based on our updated forecasts. **We reiterate our overweight rating on precious metal mining companies.**

CHART 47: PRECIOUS METAL MINING COMPANIES HAD A GREAT RUN

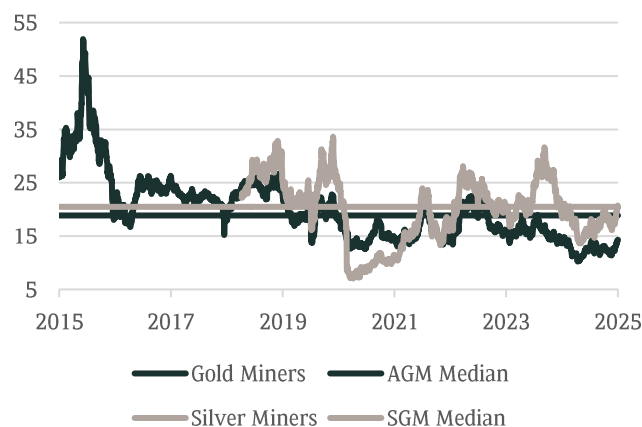


Source: BNP Paribas, Bloomberg



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CHART 48: VALUATIONS ARE STILL UNDEMANDING THOUGH



Source: BNP Paribas, Bloomberg

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European sector allocation & review – no change this month

Banks have maintained their strong momentum

European stocks have pursued their rally during the Summer, recording a gain of +4% YTD, as of the 8th of September, the Stoxx600 is up +8,88%.

The large performance discrepancy between sectors we have observed since early this year has continued and even accentuated.

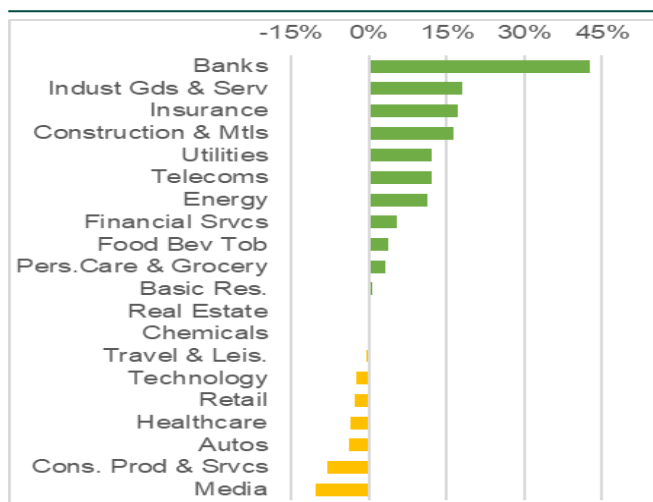
Banks are still strongly outperforming, gaining a further +10% this Summer. The sector is now up +43% YTD! Other financials are still doing well but they do not appear so cheap compared with banks.

Bank results were strong, better than expected. The context is still very favourable to them: accelerating growth and spending in Europe, supporting yield curve, improving investment banking business, etc. After the recent recovery, European banks still look cheap at an average fwd P/E of 8,8. Current fundamentals should warrant a P/E of at least 10 for the European banks, which gives them an upward potential of at least 14%.

Other sectors doing well tend to be relatively domestic and/ or value sectors, such as insurance, construction materials, utilities and telecoms.

Many of these sectors, as well as industrials, are supported by the large infrastructure/ EU strategic autonomy/ electrification plans announced in Europe and in Germany in particular. We like these sectors exposed to these themes, especially Germany is now acting quickly whereas it has already identified some areas where spending is very necessary.

CHART 49 : EUROPEAN SECTOR PERFORMANCE
YTD: DOMESTICS AHEAD WHEREAS MAINLY
GLOBAL EXPORTERS ARE UNDERPERFORMING.



Source: Stoxx600, 2025 performances as at 8 Sept 2025.



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At contrary, exporting sectors and/or sectors highly dependent on demand outside Europe have strongly underperformed. The most obvious examples are the automobile and luxury sectors, which are also facing relatively sluggish demand and rising competition from some major markets, particularly China.

Energy and basic raw materials are also suffering from oversupply whereas demand has been sluggish, particularly in China.

European technology is another lagging sector, a reflection of Europe's poor exposure to AI whereas the continent's exposure to semiconductors did not help. This sector is sensitive to China, automobile and some other end markets, all currently not in great shape.

After this underperformance, parts of these sectors could become attractive again but at the moment, we would remain very selective.

Health care has suffered from uncertainties related to US policies, including a weaker USD. Latest corporate results in this sector, though very good in aggregate, were a mixed bag. We would still focus on innovative companies: many have released great results & perspectives; they are better sheltered from possible price cuts of medicines/ treatments in the US, and more insulated from stiffening competition in some areas such as obesity drugs. **In particular, the biotech sub-sector stays promising as relatively cheap, profiting from AI, M&As, and it is among the most innovative segments in health care.**

TABLE 3 : OUR FAVOURITE EUROPEAN SECTORS
ARE STILL RELATIVELY CHEAP AND/ OR SHOWING
FASTER AND MORE SECURE EARNINGS GROWTH

Price index - in €								
09-09-25	PE				EPS Growth - %			
	2025	2026	2027	12m fwd	2025	2026	2027	12m fwd
MSCI EUROPE (€) (*)	15,7	14,0	12,5	14,4	0,1	12,5	11,6	9,4
MSCI EUROPE ENERGY	10,6	9,9	8,7	10,1	-13,5	7,3	13,1	1,5
MSCI EUROPE MATERIALS	18,3	15,6	13,7	16,2	-8,1	17,1	13,6	11,4
MSCI EUROPE INDUSTRIALS	22,0	19,5	17,2	20,0	6,7	12,9	13,1	10,8
MSCI EUROPE CONS DISCR	20,2	14,2	12,2	15,4	-23,6	42,7	16,4	22,6
MSCI EUROPE CONS STAPLES	17,4	16,2	15,0	16,5	-2,3	7,8	7,8	5,4
MSCI EUROPE HEALTH CARE	15,4	14,0	12,7	14,3	8,9	9,5	10,1	9,4
MSCI EUROPE FINANCIALS	11,0	10,0	9,0	10,2	5,1	9,9	10,7	8,8
MSCI EUROPE IT	26,0	22,9	19,2	23,5	6,0	13,6	19,2	12,7
MSCI EUROPE COMM. SERVICES	20,6	17,4	15,4	18,1	-4,2	18,7	12,5	12,6
MSCI EUROPE UTILITIES	13,1	12,5	11,7	12,7	0,6	5,1	6,3	3,6

Source: MSCI, BNP Paribas

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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			
Banks			X	42,67%	33,79%	Attractive valuations, provided Europe does not enter recession. Balance sheets are solid and should withstand the current uncertainties. European infrastructures/ defense plans create new funding opportunities.
Construction Materials			X	16,39%	7,51%	(German) infrastructure spending is a key catalyst. Rebuilding Ukraine another one. Heavy side names might benefit from US-China tariffs as they produce locally.
Financial Services			X	5,25%	-3,63%	Improving capital markets activity and expected deregulation offer support, especially to exchanges and private markets. Stay selective among asset managers due to challenges from the active to passive shift.
Health Care			X	-3,57%	-12,45%	Attractive valuations. It is a defensive compounder. Besides, 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 & new US political risks/ some willingness to reduce treatments prices in the US.
Industrial Goods & Services			X	17,96%	9,08%	The sector is being hit by tariff uncertainties but (German) infrastructure spending and 'rebuilding Ukraine' are big counterweights. Also beneficiary of defence spending, re-/nearshoring, investments in data centers and renewable energy projects.
Utilities			X	12,06%	3,18%	European infrastructure spending and energy independence willingness are new supports whereas (Green) Power demand should continue to grow. A more dovish ECB would also help valuations.
Basic Resources	X			0,53%	-8,35%	The sector has the highest correlation to China in Europe due to the high revenue exposure (~ 36%). We still prefer names exposed to energy transition & precious metals.
Chemicals	X			-0,24%	-9,12%	The sector should profit from the infrastructure plan in Germany as well as from the rebuilding of Ukraine. Strong competition from China however and tariffs (+ uncertainties related) could hurt.
Cons. Products and Services	X			-8,04%	-16,92%	Despite higher consumption in Europe, the sector suffers from tariffs and from the strong euro. Chinese consumption still sluggish. Be selective.
Insurance	X			17,20%	8,32%	Solid and rather defensive sector that has strongly outperformed the last 2 years. Cash returns still attractive but European insurance now looks fully priced at an average P/E of around 12. Be selective.
Real Estate	X			-0,10%	-8,98%	Defensive sector potentially hit by new European expansionary budgets but relatively insulated from the current trade war . Logistics and data center enjoy tailwinds from e-commerce/ AI. Be selective.
Retail	X			-2,76%	-11,64%	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.
Technology	X			-2,52%	-11,40%	AI exposed companies outperforming whereas some software & services are facing the risk of business' loss to AI. Subdued performance at tech/ semis related to autos, industrials and those exposed to China.
Telecommunications	X			12,03%	3,15%	Despite weak top line growth, the industry's falling capital intensity driven by the fibre cycle & the sector's free M&A option are supporting performance.
Auto & Parts	X			-3,85%	-12,73%	Automotives still weak due to rising competition with China, high EV investment costs, excess inventories, and bad pricing. Trade tensions are creating further complications.
Energy	X			11,21%	2,33%	Oversupply & new US administration policies are capping the upside in oil related. Saudi now flooding the market with more oil.
Food, Bev and Tobacco	X			3,73%	-5,15%	Valuations are rich 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			-10,40%	-19,28%	Expensive sector with AI full impact on business models still unclear. Meta Platforms another threat as entering many (European) media businesses and grabbing more and more ads business/ market share.
Personal Care	X			3,24%	-5,64%	The sector still faces headwinds from rising input costs while consumers are increasingly price sensitive. Lack of upside catalysts.
Travel & Leisure	X			-0,48%	-9,36%	Lower oil prices a support but high competition in a context of geopolitical tensions, discouraging travelling.

Sector (S&P 500 Level 1)	View			YTD	Out/ underperf. vs index	Our view at a glance
	UW	N	OW			
Health Care			X	-0,18%	-10,61%	Solid earnings in a structurally growing market (e.g. demographics, obesity etc). It is a defensive compounder. AI to bring more efficiency gains. Further deregulation could bring extra support. However, political risks/ some willingness to reduce treatments prices in the US.
Utilities			X	8,38%	-2,05%	Growth in power demand should remain solid due to AI tailwinds & electrification. EPS growth expectations accelerating. Accumulate.
Communication Services	X			22,76%	12,33%	The sector is dominated by 2 mega tech companies trading at lower P/Es than other 'Mag-7' but having recently considerably re-rated . The rest of the sector is not cheap either. Be selective.
Financials	X			9,54%	-0,89%	Profits and balance sheets quite solid but the sector looks fully priced . Deregulation a strong support now.
Industrials	X			14,34%	3,91%	Re-shoring and US reindustrialization are supposed to be major tailwinds. However, in the short term, tariffs uncertainties have hurt confidence, business and investments.
Materials	X			10,11%	-0,32%	In the short term, this sector will be impacted by the US economic slowdown but medium term, it should benefit from reshoring/ reindustrialization/ lower energy prices. Better to focus at the moment on stocks with exposure to precious metals/ energy transition metals mining.
Real Estate	X			2,56%	-7,87%	Activity is still sluggish in residential RE. New construction activity is muted. Commercial RE looks stressed. Momentum is better at communications towers and at some other specialized REITs.
Consumer Staples	X			4,11%	-6,32%	The sector looks fully priced , particularly the big merchandisers and staples retailers. Costs are rising due to tariffs. Besides, consumers may continue to "trade down" due to economic uncertainties.
Consumer Discretionary	X			3,74%	-6,69%	The sector is dominated by 2 expensive mega tech companies, facing various issues . Be selective and diversify away from the 'Mag-7'.
Energy	X			0,98%	-9,45%	Oversupply capping oil related. We prefer energy infrastructure names as they benefit from rising transportation and storage needs while paying attractive dividends.
Information Technology	X			14,54%	4,11%	Trading at heavy premium vs the market. Growth expectations slowing, making it harder to justify the valuation premium. Rising worries of AI-related overinvestments & of disappointing ROIs to come.



Valuations

TABLE 4: GLOBAL INDICES

		Forward														Composite	
Index	Level	1yr Range	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	972	<div><div></div><div></div><div></div><div></div><div></div></div>	49,18	<div><div></div><div></div><div></div><div></div><div></div></div>	0,32	19,77	<div><div></div><div></div><div></div><div></div><div></div></div>	2,21	<div><div></div><div></div><div></div><div></div><div></div></div>	1,90	<div><div></div><div></div><div></div><div></div><div></div></div>	10,53	<div><div></div><div></div><div></div><div></div><div></div></div>	5,06	<div><div></div><div></div><div></div><div></div><div></div></div>	n.a.	n.a.
MSCI World	4253	<div><div></div><div></div><div></div><div></div><div></div></div>	205,69	<div><div></div><div></div><div></div><div></div><div></div></div>	0,71	20,68	<div><div></div><div></div><div></div><div></div><div></div></div>	2,26	<div><div></div><div></div><div></div><div></div><div></div></div>	1,80	<div><div></div><div></div><div></div><div></div><div></div></div>	10,17	<div><div></div><div></div><div></div><div></div><div></div></div>	4,84	<div><div></div><div></div><div></div><div></div><div></div></div>	1,04	<div><div></div><div></div><div></div><div></div><div></div></div>
MSCI Emerging Markets	1326	<div><div></div><div></div><div></div><div></div><div></div></div>	91,95	<div><div></div><div></div><div></div><div></div><div></div></div>	-2,12	14,42	<div><div></div><div></div><div></div><div></div><div></div></div>	1,90	<div><div></div><div></div><div></div><div></div><div></div></div>	2,71	<div><div></div><div></div><div></div><div></div><div></div></div>	13,09	<div><div></div><div></div><div></div><div></div><div></div></div>	6,94	<div><div></div><div></div><div></div><div></div><div></div></div>	0,74	<div><div></div><div></div><div></div><div></div><div></div></div>
S&P 500	6584	<div><div></div><div></div><div></div><div></div><div></div></div>	286,03	<div><div></div><div></div><div></div><div></div><div></div></div>	0,59	23,02	<div><div></div><div></div><div></div><div></div><div></div></div>	4,84	<div><div></div><div></div><div></div><div></div><div></div></div>	1,28	<div><div></div><div></div><div></div><div></div><div></div></div>	19,25	<div><div></div><div></div><div></div><div></div><div></div></div>	4,34	<div><div></div><div></div><div></div><div></div><div></div></div>	1,27	<div><div></div><div></div><div></div><div></div><div></div></div>
S&P 500 Equal Weighted	7633	<div><div></div><div></div><div></div><div></div><div></div></div>	416,94	<div><div></div><div></div><div></div><div></div><div></div></div>	-0,27	18,31	<div><div></div><div></div><div></div><div></div><div></div></div>	2,86	<div><div></div><div></div><div></div><div></div><div></div></div>	2,11	<div><div></div><div></div><div></div><div></div><div></div></div>	14,27	<div><div></div><div></div><div></div><div></div><div></div></div>	5,46	<div><div></div><div></div><div></div><div></div><div></div></div>	0,96	<div><div></div><div></div><div></div><div></div><div></div></div>
Russell 2000	2397	<div><div></div><div></div><div></div><div></div><div></div></div>	80,79	<div><div></div><div></div><div></div><div></div><div></div></div>	-9,40	29,67	<div><div></div><div></div><div></div><div></div><div></div></div>	1,69	<div><div></div><div></div><div></div><div></div><div></div></div>	2,88	<div><div></div><div></div><div></div><div></div><div></div></div>	5,08	<div><div></div><div></div><div></div><div></div><div></div></div>	3,37	<div><div></div><div></div><div></div><div></div><div></div></div>	1,43	<div><div></div><div></div><div></div><div></div><div></div></div>
NASDAQ 100	24092	<div><div></div><div></div><div></div><div></div><div></div></div>	877,44	<div><div></div><div></div><div></div><div></div><div></div></div>	1,37	27,46	<div><div></div><div></div><div></div><div></div><div></div></div>	7,54	<div><div></div><div></div><div></div><div></div><div></div></div>	0,70	<div><div></div><div></div><div></div><div></div><div></div></div>	24,10	<div><div></div><div></div><div></div><div></div><div></div></div>	3,64	<div><div></div><div></div><div></div><div></div><div></div></div>	1,59	<div><div></div><div></div><div></div><div></div><div></div></div>
MSCI USA Growth	31021	<div><div></div><div></div><div></div><div></div><div></div></div>	526,21	<div><div></div><div></div><div></div><div></div><div></div></div>	1,55	31,25	<div><div></div><div></div><div></div><div></div><div></div></div>	11,06	<div><div></div><div></div><div></div><div></div><div></div></div>	0,39	<div><div></div><div></div><div></div><div></div><div></div></div>	32,02	<div><div></div><div></div><div></div><div></div><div></div></div>	1,70	<div><div></div><div></div><div></div><div></div><div></div></div>	1,92	<div><div></div><div></div><div></div><div></div><div></div></div>
MSCI USA Value	15553	<div><div></div><div></div><div></div><div></div><div></div></div>	231,85	<div><div></div><div></div><div></div><div></div><div></div></div>	0,30	17,88	<div><div></div><div></div><div></div><div></div><div></div></div>	3,01	<div><div></div><div></div><div></div><div></div><div></div></div>	2,25	<div><div></div><div></div><div></div><div></div><div></div></div>	15,44	<div><div></div><div></div><div></div><div></div><div></div></div>	1,49	<div><div></div><div></div><div></div><div></div><div></div></div>	0,95	<div><div></div><div></div><div></div><div></div><div></div></div>
STOXX Europe 600	558	<div><div></div><div></div><div></div><div></div><div></div></div>	37,12	<div><div></div><div></div><div></div><div></div><div></div></div>	-0,13	14,95	<div><div></div><div></div><div></div><div></div><div></div></div>	0,71	<div><div></div><div></div><div></div><div></div><div></div></div>	3,71	<div><div></div><div></div><div></div><div></div><div></div></div>	4,55	<div><div></div><div></div><div></div><div></div><div></div></div>	6,65	<div><div></div><div></div><div></div><div></div><div></div></div>	0,71	<div><div></div><div></div><div></div><div></div><div></div></div>
STOXX Europe Mid 200	600	<div><div></div><div></div><div></div><div></div><div></div></div>	40,35	<div><div></div><div></div><div></div><div></div><div></div></div>	-0,09	14,76	<div><div></div><div></div><div></div><div></div><div></div></div>	1,74	<div><div></div><div></div><div></div><div></div><div></div></div>	3,92	<div><div></div><div></div><div></div><div></div><div></div></div>	11,62	<div><div></div><div></div><div></div><div></div><div></div></div>	6,73	<div><div></div><div></div><div></div><div></div><div></div></div>	0,75	<div><div></div><div></div><div></div><div></div><div></div></div>
STOXX Europe Small 200	363	<div><div></div><div></div><div></div><div></div><div></div></div>	26,22	<div><div></div><div></div><div></div><div></div><div></div></div>	-0,56	13,75	<div><div></div><div></div><div></div><div></div><div></div></div>	1,51	<div><div></div><div></div><div></div><div></div><div></div></div>	3,57	<div><div></div><div></div><div></div><div></div><div></div></div>	11,03	<div><div></div><div></div><div></div><div></div><div></div></div>	7,22	<div><div></div><div></div><div></div><div></div><div></div></div>	0,69	<div><div></div><div></div><div></div><div></div><div></div></div>
DAX	23837	<div><div></div><div></div><div></div><div></div><div></div></div>	1487,10	<div><div></div><div></div><div></div><div></div><div></div></div>	-1,39	15,94	<div><div></div><div></div><div></div><div></div><div></div></div>	1,86	<div><div></div><div></div><div></div><div></div><div></div></div>	3,96	<div><div></div><div></div><div></div><div></div><div></div></div>	10,62	<div><div></div><div></div><div></div><div></div><div></div></div>	6,24	<div><div></div><div></div><div></div><div></div><div></div></div>	0,81	<div><div></div><div></div><div></div><div></div><div></div></div>
FTSE 100	9283	<div><div></div><div></div><div></div><div></div><div></div></div>	683,71	<div><div></div><div></div><div></div><div></div><div></div></div>	0,00	13,58	<div><div></div><div></div><div></div><div></div><div></div></div>	0,21	<div><div></div><div></div><div></div><div></div><div></div></div>	3,55	<div><div></div><div></div><div></div><div></div><div></div></div>	1,46	<div><div></div><div></div><div></div><div></div><div></div></div>	7,37	<div><div></div><div></div><div></div><div></div><div></div></div>	0,63	<div><div></div><div></div><div></div><div></div><div></div></div>
CAC 40	7921	<div><div></div><div></div><div></div><div></div><div></div></div>	510,98	<div><div></div><div></div><div></div><div></div><div></div></div>	-0,09	15,31	<div><div></div><div></div><div></div><div></div><div></div></div>	1,84	<div><div></div><div></div><div></div><div></div><div></div></div>	3,44	<div><div></div><div></div><div></div><div></div><div></div></div>	12,29	<div><div></div><div></div><div></div><div></div><div></div></div>	6,45	<div><div></div><div></div><div></div><div></div><div></div></div>	0,78	<div><div></div><div></div><div></div><div></div><div></div></div>
FTSE MIB	42985	<div><div></div><div></div><div></div><div></div><div></div></div>	3475,80	<div><div></div><div></div><div></div><div></div><div></div></div>	0,75	12,25	<div><div></div><div></div><div></div><div></div><div></div></div>	1,54	<div><div></div><div></div><div></div><div></div><div></div></div>	5,24	<div><div></div><div></div><div></div><div></div><div></div></div>	12,48	<div><div></div><div></div><div></div><div></div><div></div></div>	8,09	<div><div></div><div></div><div></div><div></div><div></div></div>	0,63	<div><div></div><div></div><div></div><div></div><div></div></div>
Nikkei 225	44768	<div><div></div><div></div><div></div><div></div><div></div></div>	2039,73	<div><div></div><div></div><div></div><div></div><div></div></div>	-1,35	21,95	<div><div></div><div></div><div></div><div></div><div></div></div>	2,25	<div><div></div><div></div><div></div><div></div><div></div></div>	1,83	<div><div></div><div></div><div></div><div></div><div></div></div>	10,15	<div><div></div><div></div><div></div><div></div><div></div></div>	4,56	<div><div></div><div></div><div></div><div></div><div></div></div>	1,10	<div><div></div><div></div><div></div><div></div><div></div></div>
Hang Seng	26447	<div><div></div><div></div><div></div><div></div><div></div></div>	2098,52	<div><div></div><div></div><div></div><div></div><div></div></div>	-6,94	12,57	<div><div></div><div></div><div></div><div></div><div></div></div>	1,34	<div><div></div><div></div><div></div><div></div><div></div></div>	3,09	<div><div></div><div></div><div></div><div></div><div></div></div>	10,27	<div><div></div><div></div><div></div><div></div><div></div></div>	7,93	<div><div></div><div></div><div></div><div></div><div></div></div>	0,63	<div><div></div><div></div><div></div><div></div><div></div></div>

TABLE 5: 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	Upside to 12M Target Price*	vs. SXXP	5yr Z-Score
STOXX Europe	558		37,12		-0,13	14,95		0,71		3,71		4,55		6,65		10%	1,00	
STOXXE 600 Consumer P&S	368		15,10		-1,84	23,95		3,43		2,23		13,93		4,10		10%	1,75	
STOXXE 600 Energy	124		10,82		0,18	11,49		0,06		5,16		0,48		8,69		10%	0,74	
STOXXE 600 Food, Bev and Tobacco	185		12,22		-0,51	15,07		2,49		4,14		15,83		6,61		16%	1,12	
STOXXE 600 Personal Care	168		10,17		0,25	16,48		2,97		3,43		16,57		6,04		8%	1,24	
STOXXE 600 Chemicals	1179		65,96		-1,45	17,75		1,85		3,21		9,72		5,59		16%	1,25	
STOXXE 600 Utilities	435		32,47		-0,62	13,34		1,58		4,97		11,54		7,46		11%	0,95	
STOXXE 600 Banks	313		31,36		0,37	9,89		1,18		5,40		12,01		10,01		2%	0,71	
STOXXE 600 Real Estate	126		8,39		0,09	14,90		0,78		5,22		7,77		6,65		17%	1,00	
STOXXE 600 Technology	788		29,86		-0,25	26,23		4,42		1,35		16,43		3,79		21%	1,96	
STOXXE 600 Autom. & Parts	528		56,32		-2,38	9,30		0,64		4,51		7,20		10,87		11%	0,64	
STOXXE 600 Health Care	1042		67,48		-0,87	15,50		3,24		3,06		17,45		6,48		15%	1,20	
STOXXE 600 Financial Services	872		57,18		-0,17	15,09		1,68		2,98		11,07		6,56		11%	1,07	
STOXXE 600 Insurance	486		39,31		0,01	12,28		2,25		6,59		18,74		8,09		4%	0,93	
STOXXE 600 Telcos	256		16,46		0,72	15,59		1,54		4,26		9,03		6,43		12%	1,09	
STOXXE 600 Media	420		30,67		0,69	13,58		2,10		3,20		12,95		7,31		24%	1,00	
STOXXE 600 Ind. Goods & Services	1067		48,23		-0,05	21,97		4,19		2,73		17,21		4,52		7%	1,67	
STOXXE 600 Constrm & Materials	824		52,38		2,00	15,65		2,36		2,81		14,75		6,36		10%	1,15	
STOXXE 600 Basic Resources	525		38,05		-1,31	13,78		1,25		3,43		8,64		7,25		8%	0,96	
STOXXE 600 Retail	435		26,00		0,72	16,59		2,91		3,37		16,95		5,98		14%	1,25	
STOXXE 600 Travel & Leisure	269		21,48		4,12	12,37		3,03		2,77		21,25		8,00		16%	0,98	

*BBG consensus, NOT an official BNP target price

TABLE 6: US SECTORS

Index	Level	1yr Range	Forward												Potential Upside to 12M Target Price*	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. S&P 500	5yr Z-Score
S&P 500	6584	<div><div></div><div></div><div></div></div>	286.03	<div><div></div><div></div><div></div></div>	0.59	23.02	<div><div></div><div></div><div></div></div>	4.84	<div><div></div><div></div><div></div></div>	1.28	<div><div></div><div></div><div></div></div>	19.25	<div><div></div><div></div><div></div></div>	4.34	<div><div></div><div></div><div></div></div>	10%	1.00	<div><div></div><div></div><div></div></div>
S&P 500 Consumer Discretionary	1914	<div><div></div><div></div><div></div></div>	68.48	<div><div></div><div></div><div></div></div>	-0.10	27.95	<div><div></div><div></div><div></div></div>	8.31	<div><div></div><div></div><div></div></div>	0.65	<div><div></div><div></div><div></div></div>	26.59	<div><div></div><div></div><div></div></div>	3.58	<div><div></div><div></div><div></div></div>	4%	1.30	<div><div></div><div></div><div></div></div>
S&P 500 Consumer Staples	889	<div><div></div><div></div><div></div></div>	39.50	<div><div></div><div></div><div></div></div>	-0.80	22.50	<div><div></div><div></div><div></div></div>	6.38	<div><div></div><div></div><div></div></div>	2.54	<div><div></div><div></div><div></div></div>	26.03	<div><div></div><div></div><div></div></div>	4.44	<div><div></div><div></div><div></div></div>	11%	1.04	<div><div></div><div></div><div></div></div>
S&P 500 Energy	672	<div><div></div><div></div><div></div></div>	42.07	<div><div></div><div></div><div></div></div>	0.93	15.98	<div><div></div><div></div><div></div></div>	1.95	<div><div></div><div></div><div></div></div>	3.55	<div><div></div><div></div><div></div></div>	12.16	<div><div></div><div></div><div></div></div>	6.26	<div><div></div><div></div><div></div></div>	14%	0.64	<div><div></div><div></div><div></div></div>
S&P 500 Financials	893	<div><div></div><div></div><div></div></div>	51.52	<div><div></div><div></div><div></div></div>	-0.39	17.33	<div><div></div><div></div><div></div></div>	2.30	<div><div></div><div></div><div></div></div>	1.70	<div><div></div><div></div><div></div></div>	12.86	<div><div></div><div></div><div></div></div>	5.77	<div><div></div><div></div><div></div></div>	8%	0.70	<div><div></div><div></div><div></div></div>
S&P 500 Health Care	1606	<div><div></div><div></div><div></div></div>	93.40	<div><div></div><div></div><div></div></div>	0.00	17.20	<div><div></div><div></div><div></div></div>	4.20	<div><div></div><div></div><div></div></div>	1.94	<div><div></div><div></div><div></div></div>	19.88	<div><div></div><div></div><div></div></div>	5.82	<div><div></div><div></div><div></div></div>	12%	0.77	<div><div></div><div></div><div></div></div>
S&P 500 Industrials	1278	<div><div></div><div></div><div></div></div>	51.44	<div><div></div><div></div><div></div></div>	-0.15	24.85	<div><div></div><div></div><div></div></div>	6.27	<div><div></div><div></div><div></div></div>	1.40	<div><div></div><div></div><div></div></div>	23.89	<div><div></div><div></div><div></div></div>	4.02	<div><div></div><div></div><div></div></div>	10%	1.12	<div><div></div><div></div><div></div></div>
S&P 500 Information Technology	5407	<div><div></div><div></div><div></div></div>	166.62	<div><div></div><div></div><div></div></div>	1.05	32.45	<div><div></div><div></div><div></div></div>	11.71	<div><div></div><div></div><div></div></div>	0.56	<div><div></div><div></div><div></div></div>	32.98	<div><div></div><div></div><div></div></div>	3.08	<div><div></div><div></div><div></div></div>	13%	1.59	<div><div></div><div></div><div></div></div>
S&P 500 Materials	582	<div><div></div><div></div><div></div></div>	27.59	<div><div></div><div></div><div></div></div>	0.28	21.10	<div><div></div><div></div><div></div></div>	2.75	<div><div></div><div></div><div></div></div>	1.86	<div><div></div><div></div><div></div></div>	12.45	<div><div></div><div></div><div></div></div>	4.74	<div><div></div><div></div><div></div></div>	9%	0.86	<div><div></div><div></div><div></div></div>
S&P 500 Real Estate	265	<div><div></div><div></div><div></div></div>	7.11	<div><div></div><div></div><div></div></div>	-0.11	37.27	<div><div></div><div></div><div></div></div>	3.06	<div><div></div><div></div><div></div></div>	3.44	<div><div></div><div></div><div></div></div>	8.04	<div><div></div><div></div><div></div></div>	2.68	<div><div></div><div></div><div></div></div>	12%	1.45	<div><div></div><div></div><div></div></div>
S&P 500 Communication Services	424	<div><div></div><div></div><div></div></div>	20.49	<div><div></div><div></div><div></div></div>	-0.11	20.70	<div><div></div><div></div><div></div></div>	4.69	<div><div></div><div></div><div></div></div>	0.90	<div><div></div><div></div><div></div></div>	20.35	<div><div></div><div></div><div></div></div>	4.83	<div><div></div><div></div><div></div></div>	7%	0.91	<div><div></div><div></div><div></div></div>
S&P 500 Utilities	432	<div><div></div><div></div><div></div></div>	23.22	<div><div></div><div></div><div></div></div>	-0.11	18.59	<div><div></div><div></div><div></div></div>	2.22	<div><div></div><div></div><div></div></div>	2.93	<div><div></div><div></div><div></div></div>	11.90	<div><div></div><div></div><div></div></div>	5.38	<div><div></div><div></div><div></div></div>	9%	0.75	<div><div></div><div></div><div></div></div>

Our key convictions at a glance

		USA	Europe	Japan	Emerging Markets
Overall view		Underweight	Overweight	Overweight	Overweight
What we (especially) like		Energy Infrastructure	UK European banks MDAX	SMIDs Domestically oriented exposure Financials	China, Singapore, South Korea
What we don't (really) like		Certain expensive US mega caps with limited exposure to AI related growth or potentially losing business to AI (cf. certain SaaS)			Thailand
Preferred themes & trades	Regional basis	Buybacks & Quality Dividend growth Equal weighted over capital weighted S&P	German infrastructure related names	Governance Reform achievers	Chinese tech Chinese high dividend plays (banks, telecom)
	Global Basis	Precious and energy transition metal miners Healthcare Utilities			

Economic, FX forecast tables

More downside risk for the US

BNP Paribas Forecasts

	2024	2025	2025- Bloomberg Consensus	2026	2026- Bloomberg Consensus
GDP Growth%					
United States	2.8	1.6	1.6	1.5	1.7
Japan	0.1	1.1	1.0	0.6	0.8
United Kingdom	1.1	1.2	1.2	1.0	1.1
Switzerland	1.0	1.5	1.1	1.4	1.4
Eurozone	0.9	1.3	1.1	1.3	1.1
Germany	-0.5	0.4	0.3	0.8	1.0
France	1.1	0.7	0.6	1.1	0.9
Italy	0.5	0.7	0.5	1.2	0.8
Emerging					
China	5.0	4.8	4.8	4.5	4.2
India**	8.2	6.5	6.4	6.3	6.4
Brazil	3.4	2.3	2.3	1.6	1.6

** Fiscal year

Source : BNP Paribas, Bloomberg - 28/08/2025

US is the outlier with rising inflation

BNP Paribas Forecasts

	2024	2025	2025- Bloomberg Consensus	2026	2026- Bloomberg Consensus
CPI Inflation%					
United States	2.9	2.8	2.8	3.6	2.7
Japan	2.7	3.2	3.0	2.5	1.8
United Kingdom	2.5	3.5	3.3	2.7	2.5
Switzerland	1.1	0.2	0.2	0.7	0.6
Eurozone	2.4	2.1	2.1	1.9	1.9
Germany	2.5	2.3	2.1	2.0	2.0
France	2.3	1.0	1.1	1.3	1.7
Italy	1.1	1.7	1.8	1.7	1.6
Emerging					
China	0.2	0.0	0.1	1.0	1.0
India*	5.4	4.6	4.6	4.1	3.2
Brazil	4.4	5.1	5.2	4.4	4.4

* Fiscal year

Source : BNP Paribas, Bloomberg - 28/08/2025

FX FORECASTS EUR

	Country	Spot 27/08/2025	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
Eurozone	United States	EUR / USD 1.16	Neutral	1.15	Negative	1.20
	United Kingdom	EUR / GBP 0.86	Neutral	0.87	Neutral	0.87
	Japan	EUR / JPY 171.41	Positive	167	Neutral	168
	Switzerland	EUR / CHF 0.93	Neutral	0.94	Neutral	0.94
	Australia	EUR / AUD 1.79	Positive	1.74	Neutral	1.82
	New-Zealand	EUR / NZD 1.99	Positive	1.92	Neutral	2.00
	Canada	EUR / CAD 1.60	Neutral	1.59	Neutral	1.63
	Sweden	EUR / SEK 11.10	Neutral	11.00	Neutral	11.00
	Norway	EUR / NOK 11.75	Neutral	11.60	Positive	11.30
	China	EUR / CNY 8.30	Neutral	8.22	Negative	8.52
Asia	India	EUR / INR 101.66	Positive	98.90	Negative	105.60
	Brazil	EUR / BRL 6.31	Negative	6.44	Negative	6.96
Latam	Mexico	EUR / MXN 21.75	Neutral	21.85	Neutral	21.60

FX FORECASTS USD

	Country	Spot 27/08/2025	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
Eurozone	Eurozone	EUR / USD 1.16	Neutral	1.15	Positive	1.20
	United Kingdom	GBP / USD 1.35	Neutral	1.32	Positive	1.38
	Japan	USD / JPY 147.86	Neutral	145.00	Positive	140.00
	Switzerland	USD / CHF 0.80	Neutral	0.82	Positive	0.78
	Australia	AUD / USD 0.65	Neutral	0.66	Neutral	0.66
	New-Zealand	NZD / USD 0.58	Positive	0.60	Positive	0.60
	Canada	USD / CAD 1.38	Neutral	1.38	Positive	1.35
	China	USD / CNY 7.16	Neutral	7.15	Neutral	7.10
	India	USD / INR 87.69	Neutral	86.00	Neutral	88.00
	Brazil	USD / BRL 5.45	Negative	5.60	Negative	5.80
Latam	Mexico	USD / MXN 18.76	Neutral	19.00	Positive	18.00
	South Africa	USD / ZAR 17.76	Neutral	18.00	Neutral	17.50
EMEA	USD Index	DX 98.23	Neutral	98.98	Negative	95.13

Sources: BNP Paribas, LSEG

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