Our Investment Themes 2025

BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world

CONTENTS

The "everything" rally in 2024
Will the good times last for investors?

Major trends supporting asset values

Despite warfare in Ukraine, the Middle East and Sudan, and a large number of political elections taking place in over 70 countries with more voters in history casting their ballots in 2024, the related uncertainty did not derail financial asset values. Almost all asset classes delivered positive returns for investors in 2024, thanks to impressive gains in stock markets and precious metals. Moderate economic growth around the world, combined with inflation returning close to central bank targets and steady reductions in benchmark interest rates, provided a rare Goldilocks macroeconomic backdrop, allowing for stable growth in profits, income and values.

Challenges for 2025

What must investors bear in mind in 2025? The refinancing of record sovereign debt burdens will become a big issue given the rising interest cost burden on national budgets. This factor could weigh on longer-term bond yields, holding back bond performance, even with benchmark rates falling.

Secondly, the expensive valuation of US large-cap stocks at nearly 22x P/E following the impressive performance of the Magnificent 7 technology stocks could weigh on stock market performance if earnings momentum slows. US corporate bonds are also expensive by historic standards, judging from current record-low credit spreads over sovereign bonds.

Ultimately, global liquidity will play a crucial role in determining the performance of financial assets in the year ahead, led by the actions of central banks. Lower interest rates will help boost liquidity and loan demand. However, a key factor will be the conversion of elevated household savings rates out of cash into more economically-productive assets, particularly in China and Europe.

Key trends to watch in 2025

We believe that there are a select few trends that investors should keep front of mind in the new year:

- **Lower interest rates:** a reversal of many of the steep interest-rate hikes in 2022-2023 will support leveraged asset classes, such as real estate, infrastructure and private equity. Cyclical stocks should gain from increased investment rates.

- **Energy infrastructure upgrades:** the energy transition and Artificial Intelligence-related investment are driving the requirement to upgrade both electricity generation and transmission capacity around the world.

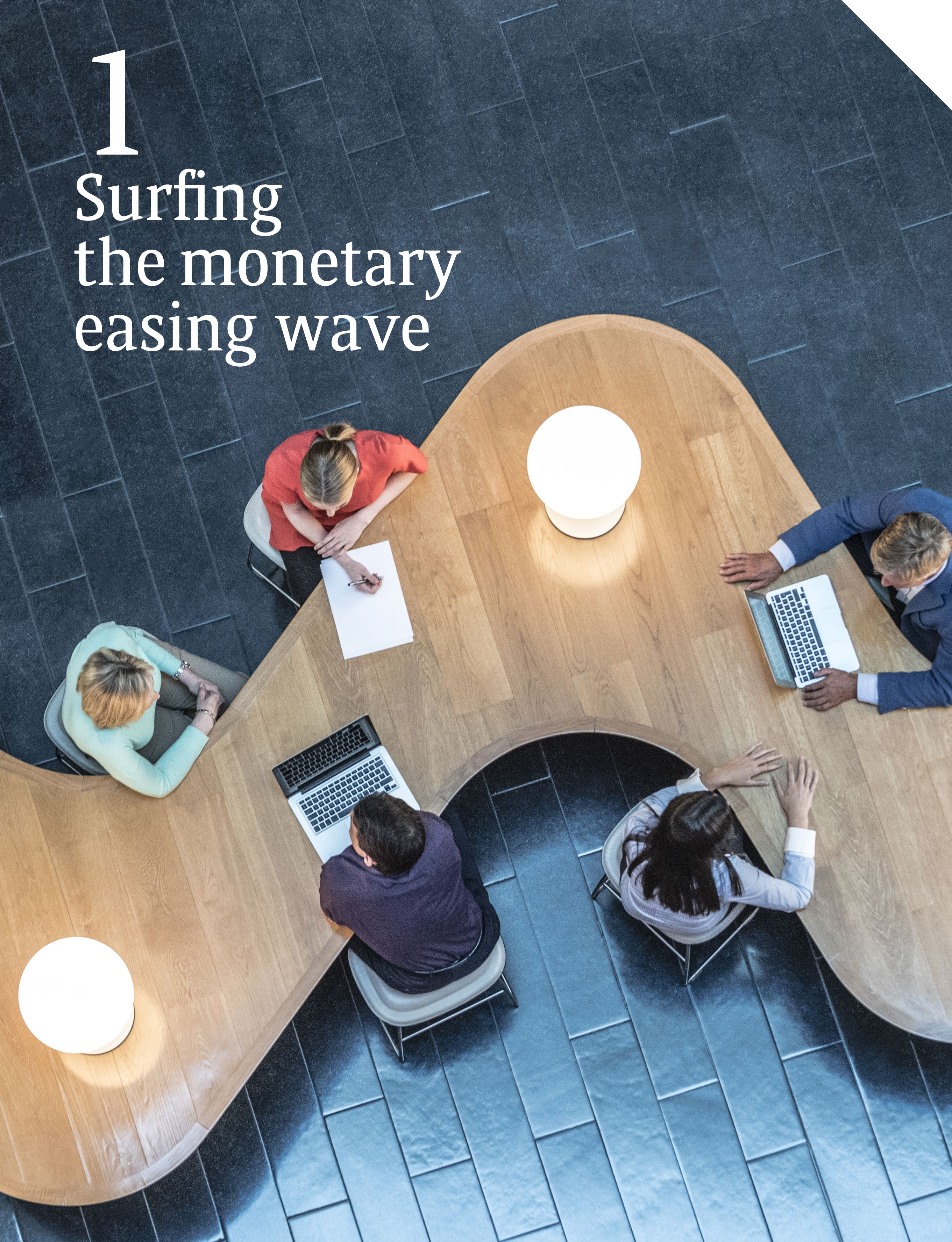
- **Diversifying away from record US concentration:** US large-cap stocks represent a historically-high percentage of the global stock market, and stock and bond markets are increasingly moving in sync. Investor portfolios need greater diversification by asset class and geography.

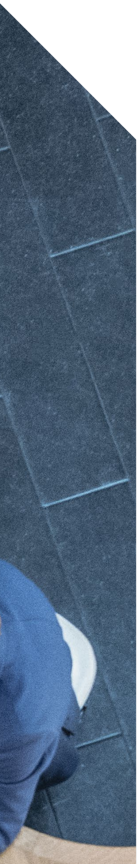
- **The AI investment wave:** hyperscalers like Amazon are investing massively in data centres amid the AI "gold rush". We focus on those companies that can benefit from this near-term investment wave, as well as the non-tech sectors that can put AI models to profitable use today.

- **Healthy longevity:** dramatic advances in new treatments for age-related diseases, improved diagnostic tests and a longer working life present new investment opportunities.

We invite you to go further by reading the publication on our five annual investment themes.

1
Surfing the monetary easing wave





Today, US and European benchmark interest rates sit close to their highest levels seen over the last 15-20 years. As a result of these historically elevated rates, inflation has declined to or close to the 2% level targeted by major central banks. Economic growth is now running below average in Europe and China and is decelerating in the US. Central banks have thus switched their focus to supporting employment and growth by cutting interest rates. We expect this coordinated central bank rate-cutting cycle to continue at least until late 2025.

Long-term interest rates (bond yields) have already dropped since April in anticipation of falling inflation and short-term interest rates. This already represents substantial support to the global economy (which has become more sensitive to long-term rates in recent years) as well as to corporates and thus to stock markets.

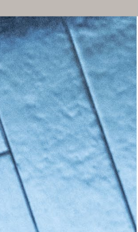
OUR RECOMMENDATIONS

A multi-asset theme focused on stocks, bonds, commodities, real estate and private assets.

- **Switch from cash to other assets** including bonds to benefit from carry.
- **Profit from a steeper yield curve,** e.g. invest in Bank stocks, sector.
- **Industrial sectors** because industrial activity will rebound on lower rates.
- **Mid-/small-caps** to benefit in a rate-cutting + soft-landing scenario.
- **Gold,** which will benefit from falling central bank rates.
- **Leveraged asset classes** helped by falling rates: real estate, private equity, infrastructure/utilities, clean energy.

KEY RISKS

- Increasing deglobalisation, escalating trade wars and rising protectionism could dampen economic growth while simultaneously putting upward pressure on inflation.
- Inflation may flare up again, forcing central banks to slow down the monetary easing process or, in the worst-case scenario, to reverse course by hiking rates again.
- Should our base-case scenario of a soft landing not materialise, risky assets (stocks, corporate bonds) could underperform despite monetary tailwinds.



2
Infrastructure: the new industrial revolution

Infrastructure (both physical and digital) is essential for connecting people with goods, information, places, markets, resources, and of course together. Access to roads, the internet, power lines, and waterpipes connect people to the things they need to live, not just what they want. Infrastructure investment must accelerate to meet these needs, made more urgent by climate change and the energy demands of new technologies. Government funding in the form of the Inflation Reduction Act and the Chips Act in the US, and the REPowerEU plan in Europe provide powerful incentives to spur this necessary infrastructure investment.

This theme represents the convergence of demand growth both from new technologies such as Artificial Intelligence, 5G mobile internet and renewable energies, and from the swelling middle classes in emerging markets such as India.

OUR RECOMMENDATIONS

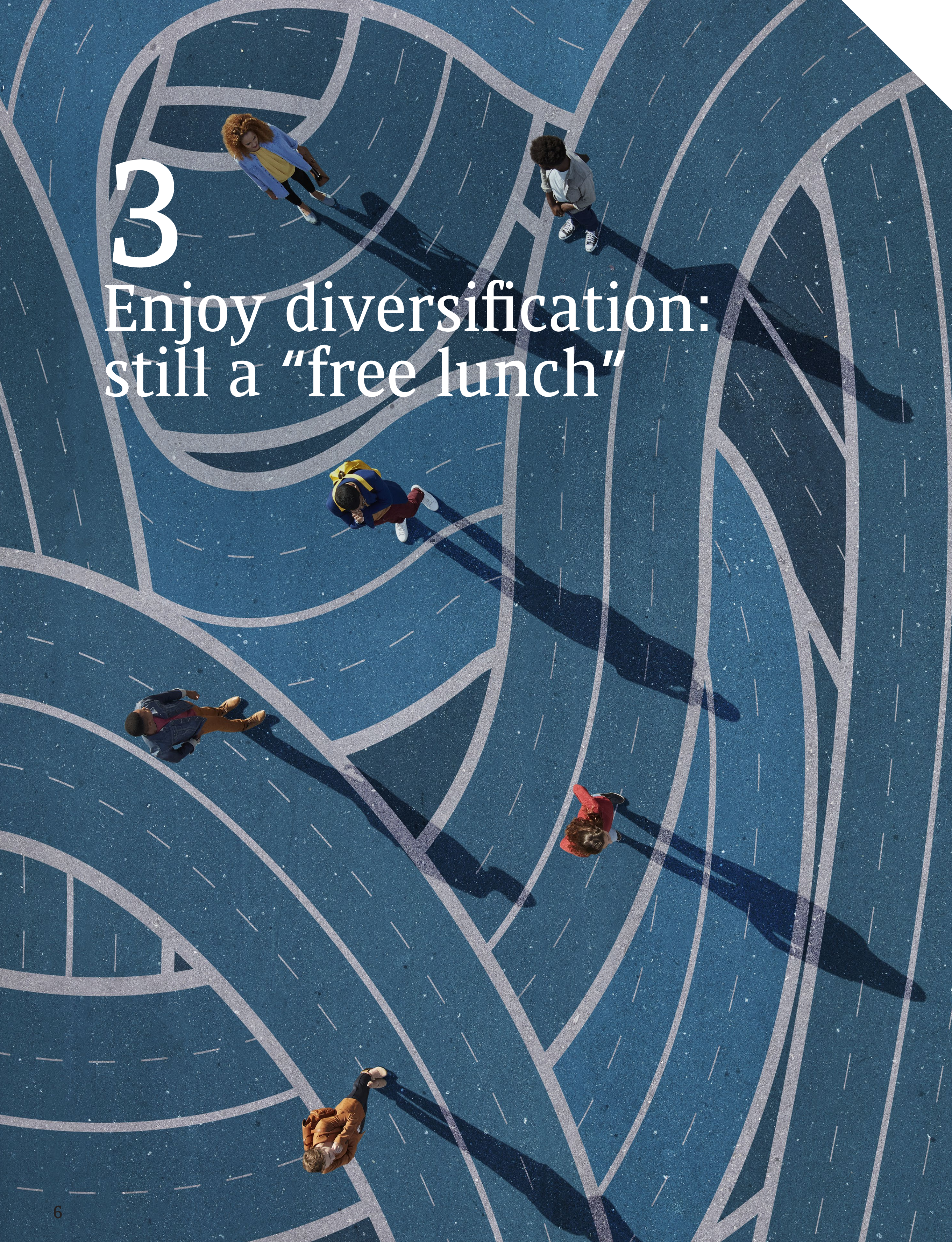
A theme focused on stocks, commodities, real estate and private assets.

- **Alternative/indirect investment in AI** including data centre real estate, electricity demand growth in smart grids, energy efficiency.
- US and EU **transport infrastructure**.
- US **energy infrastructure** related to LNG.
- **Clean water** production and distribution.
- **Network security infrastructure** to tackle cybersecurity.
- **Nuclear energy.**
- **Industrial metals,** e.g. copper for electricity infrastructure upgrades.
- **Construction materials** sector e.g. cement and concrete.

KEY RISKS

- New US government pushing back on infrastructure spending and/or energy transition.
- High fiscal deficits and government debts could limit infrastructure spending.
- Chinese low-cost competition in some segments (e.g. solar, batteries).
- Sensitive to a potential rebound of inflation and hikes in interest rates.

3
Enjoy diversification: still a “free lunch”



Owing to the impressive performance of US technology mega-cap companies over the past eight years, 9 of the 10 largest companies by weighting in the 1,410 member MSCI World index are US technology stocks. They represent a record-high 23% of the index! In other words, today, an investment in global stocks heavily relies on a single industry in a single country.

Moreover, bonds no longer sufficiently diversify a portfolio which also contains stocks, especially when inflation is above target. Since mid-2021, US bonds have been positively correlated with US stocks, as observed during the 1970-1991 higher inflation period. Better diversification, and thus lower portfolio risk, can be achieved by adding asset classes, such as commodities and alternative income strategies such as trend-following and relative value alternative UCITS funds.

OUR RECOMMENDATIONS

A theme focused on alternative assets and solutions outside of stocks, bonds and real estate.

- **Alternative income strategies:** private credit, structured products.
- **Trend-following/CTA alternative UCITS strategies.**
- **Low volatility relative and global macro alternative UCITS strategies.**
- **Downside protected strategies,** e.g. capital-guaranteed structured products, ETFs.
- **Precious metals.**
- **Real estate funds (REITs)** and value-add real estate.

KEY RISKS

- The current Artificial Intelligence mania continues for longer, propelling US large-cap technology companies and thus the US stock market to greater outperformance, fuelling a higher concentration of the global stock market.

4 Monetising AI

What is driving the hype around Artificial Intelligence (AI)? Mega-cap technology companies and numerous start-ups are investing massively in AI software and applications, providing a huge boon for key "picks and shovels" technology suppliers such as Nvidia. But just like the California Gold Rush (1848-1855) or the 2000 internet bubble, there could be huge disappointment in the near term as the results of this investment boom could be underwhelming – the warning of Nobel Prize-winning economist Daron Acemoglu.

We are looking for indirect ways to capitalise on the growing spending in AI-related technology, which we see as much more predictable than the resulting returns from this tidal wave of technology investment.

OUR RECOMMENDATIONS

A theme focused on stocks, infrastructure and real estate.

- **Industrial, media/marketing and retail companies** with AI-related productivity and cost gains over the next 12-24 months.
- **Electricity and data-centre infrastructure.**
- **Robotics and automation.**
- **Health care drug discovery,** diagnostics etc.
- **Logistics efficiency.**

KEY RISKS

- Productivity and profitability from the current investment wave in Artificial Intelligence could prove to disappoint optimistic expectations in terms of delivery of growth.
- Investors may be underestimating the time needed for companies and organisations to adapt their ways of working in order to implement AI software and tools in their current business models.

5
Healthy longevity: the Holy Grail

We are living increasingly longer. In Europe, life expectancy at age 65 has increased steadily to over 20 years (to age 85+). In Sweden, life expectancy at birth is forecast to increase by an additional 5-6 years by 2070. The new normal is living longer, posing challenges of how to live healthily for longer, how we can contribute economically for longer and how to finance a potentially lengthier retirement.

Scientists and doctors are pushing the boundaries of human biology, while finance professionals look to reset the rules of retirement. This longevity revolution is beginning to change our entire lives, from how we work to how we eat and enjoy leisure. The age of infinite possibilities is upon us, and living to 100 will soon become more commonplace.

OUR RECOMMENDATIONS

A theme focused on stocks, real estate and private equity.

- Selected **pharmaceutical** stocks.
- Selected **biotechnology** & medical technology stocks, private equity funds.
- Health care-focused **real estate funds and REITs**.
- **Health and wellness:**
  - Health care technology
  - Health & sustainable food
  - Selected nutraceuticals
- **Consumer and service companies** that have substantial exposure to seniors.
- **Financial services:** asset and wealth management, health insurance.

KEY RISKS

- Limits on public health care budgets may limit access to innovative treatments for age-related diseases.

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