

US elections – Outlook changes

Key messages

- The US election outcome is a game changer. The effect on US growth should be positive in the short term but mixed to negative in 2026. More stimulus and tariffs should push up US inflation next year.
- Lower uncertainty and a possible end to the conflicts in Ukraine and the Middle East could have a positive impact on world growth (via lower energy prices and improved sentiment) over the coming months. In the medium term, we can expect a negative effect due to tariffs.
- The Fed should pause its rate-cutting cycle in September 2025 with a policy rate of 3.75%, i.e., hence we have removed two 25bp cuts compared to our previous scenario. For the ECB, we forecast a terminal rate of 2% to be reached in September 2025 (2.25% in the previous scenario).
- We see the US 10-year yield at 4.25% in 12 months (previously 4%). We have not changed our 12-month target on the Germany bund yield (2.25%). We turn Neutral from Positive on EM bonds.
- The higher rate differential suggests renewed USD strength. We have revised our USD targets in general and the EUR/USD target to 1.06 for the 3-month and 1.02 for the 12-month horizon.
- We have upgraded US equities to Overweight and downgrade European equities to Neutral. Within Europe we still favour the UK and see value in the periphery countries as well as in the Nordics, especially Sweden. We continue to like cyclical stocks, with domestic exposure. Financials are our key sector conviction in the US.
- We remain Neutral on the Brent price with a target range of USD 70-80. But the downside risks are increasing.

Economic Outlook: the US election outcome is a game changer. As discussed in our flash after the US election, the effects on US growth should be positive over the next few quarters but mixed to negative in 2026. The key assumption is that more stimulus and tariffs should push up inflation as the economy remains close to full employment. We expect tariff increases from the US President, but we do assume that they will be lower than expected as tariff threats will also be used as a negotiation technique.

We are likely to downgrade European growth but only moderately. We see little impact on the inflation forecast, potentially even lower. The same is true for most other countries. The risks of a recession in the eurozone remain low as the underlying trend is still supportive especially for the consumer. The outlook for income remains positive especially as uncertainty regarding both inflation and purchasing power has faded. Also note that a lot of negative news has already been priced in, and that economic data have generally surprised positively even in the eurozone. In China, the market was disappointed as the fiscal announcement after the National People's Congress fell short of expectations with no mention of fiscal support for consumption or the property market. The markets are also concerned about potential US tariffs and the hawkish stance on China as Trump is expected to appoint China hawk Mike Waltz as his national security adviser. There is, however, still room for more fiscal stimulus.

Lower uncertainty and a possible end to the conflicts in Ukraine and the Middle East could have a positive impact on world growth (via lower energy prices and improved sentiment) over the coming months. In the medium term, we can however expect a negative effect due to tariffs.

Guy Ertz



Central banks and bond markets: the implication of the US election is that the Fed may pause the rate-cutting cycle earlier than we had initially expected, as inflation may increase in late 2025. For now, the Fed will not change its plan as it bases its policy on incoming data. It does not speculate on the impact of what Trump will do. So, the plan to cut rates in December and at a quarterly cadence in most of 2025 is still valid in our view. We think that the Fed will pause its rate-cutting cycle in September 2025 with a policy rate of 3.75%, i.e., we have removed two 25bp cuts compared to our previous scenario. In the eurozone, disinflation is well underway, and the ECB is facing a risk of losing economic momentum. We therefore see a higher probability of a deeper rate-cutting cycle. We now forecast an ECB terminal rate at 2% that should be reached in September 2025, as opposed to 2.25% in the previous scenario.

We have revised our bond yield targets higher in the US given the inflation risk (Trump's policy focuses on less immigration and more tariffs) and the risk of increased fiscal spending that would suggest more Treasury supply. We see the US 10-year yield at 4.25% in 12 months (previously 4%). We have not changed our 12-month target on the Germany bund yield (2.25%). We stay Neutral on government bonds.

Regarding corporate bonds, the Red sweep is the perfect scenario for Credit as it implies easier regulation and lower corporate tax. Corporate credit may test new cycle lows in the US. In Europe, the Red sweep is not Credit-positive given the potential tariffs and geopolitical uncertainty. We do believe, however, that this is at least partially priced in, and we do not expect Trump to impose as many tariffs as threatened. The technical backdrop remains very supportive, and we stay Positive on both EUR and USD Investment Grade corporate bonds, and Neutral on High Yield corporate bonds (valuations are very tight).

In Emerging Markets, fundamentals are sound, and the carry is elevated. However, the expected expansionary US fiscal policy will generate higher US bond yields, and the central banks' policy divergence augurs well for a stronger dollar. These two factors are not positive for EM bonds. In addition, potential tariffs and trade tensions will harm EM exporters. Hence, we turn Neutral from Positive on EM bonds.

Edouard Desbonnets

Currencies: the main driver for the coming month will be the interest rate differential. As mentioned above, the policy rate of the US central bank is now expected to stabilise at a higher level than our previous outlook. In addition, the ECB will probably cut rates by more than expected. This would imply a much higher rate differential in favour of the USD relative to the euro. We have revised down our EUR/USD target to 1.06 for the 3 month and 1.02 for the 12-month horizon. This suggests a stronger dollar. The euro remains, however, undervalued relative to long-term fair value estimates such as the one from the OECD but deviations may last over time especially when the interest rate differential rises. We have also changed our outlook for the Japanese Yen. The Bank of Japan is still expected to increase its policy rate. Nevertheless, as mentioned above, the Fed terminal rate is now seen to be higher than our previous outlook. The Yen should remain broadly stable at around current levels. We have revised our USD/JPY target to 150 (value of one USD) for both our 3- and 12-month targets. The Chinese currency has more downside from current levels. We have revised our USD/CNY targets to 7.20 and 7.30 (value of one USD) for the 3- and 12-month horizons. We have also reviewed other targets against the USD. More details will be available in our Currencies Focus that will be published soon.

Guy Ertz

Equities: Downgrading European equities to Neutral. Prospects for Europe have worsened materially recently. Not only is the threat of a reacceleration of global trade tensions jeopardising our view of a growth recovery, but also it does so at probably the worst time. With the breakdown of the German leading coalition, a key country in the eurozone will be occupied with domestic issues in the coming months. This makes a coordinated European response to any US demands more complicated. Due to its open and export-oriented business structure, Europe would also suffer from escalating trade tensions between the US and China. While our base-case scenario neither assumes a global 10% tariff rate nor a 60% tariff on China, the mere uncertainty stemming from the threat could create severe growth scares as uncertainty usually hinders investments. Earnings reported by European companies have been mixed so far. While free float market cap-weighted earnings results have come in 3.7% ahead of consensus, earnings revisions breadth remains negative.

Earnings trends appear broadly negative, with significant revisions, but the impact is particularly severe for China-related sectors such as automakers, luxury goods, and commodity producers. This is particularly important as it puts the expected earnings growth for 2025 at risk, particularly as a 0.1 ppt sales-weighted GDP reduction could cause STOXX 600 earnings to fall by 1ppt. Within Europe, we favour the UK and see value in the periphery countries as well as the Nordics, especially Sweden.

Upgrading US equities to Overweight: following the Red sweep, we should see the implementation of many (or all) proposed fiscal stimulus packages, including tax cuts and deregulation. It's worth keeping in mind that Small & Mid-Caps have a higher gearing to low corporate tax rates, because, among other factors, their effective tax rate is currently above levels for large caps. If we combine this with a policy mainly focused on the domestic economy, we see the stars aligning for a more sustainable move from still rather expensive US mega caps to more reasonably priced areas of the market. We thus stick to our relative preference of Small & Mid-Caps over the S&P500 equally weighted and over the S&P500 market weighted. Since the aforementioned policy should also help drive manufacturing PMIs higher, we continue to like cyclical stocks with domestic exposure. Financials are our key sector conviction in the US as the sector should benefit from a "higher for longer" rates environment and ongoing deregulation.

Stephan Kemper

We remain cautiously optimistic on China equities due to three reasons: i) there is still room for more fiscal stimulus. It is likely that Beijing will prefer to introduce further stimulus in the 2025 budget after Trump's inauguration; ii) the 60% tariff on China is not our base-case scenario. Like Trade War 1.0, it could be Trump's trade tactics for a trade deal (it may take less time to reach a trade deal in Trade War 2.0), and iii) the China market could still be volatile in the short term, but we expect domestic A-shares (i.e. CSI 300 Index) to be more resilient than offshore China equities because of the ongoing capital market reform. Furthermore, the swap facility from the stimulus package announced in September has been working well to improve market liquidity and to encourage inflows into the A-share markets.

Grace Tam

Commodities: President-elect Trump has promised to support US oil and gas exploration (including shale oil & gas), by rolling back regulation and speeding up permit-granting procedures. This will further increase the country's already record-high oil and gas production. While this offers positive volume growth prospects for US energy companies, it could entail additional pressure on oil prices in an already challenging supply-demand situation. Remember that global demand growth remains very slow, partly due to the energy transition. This prospect of further growing US supply comes on top of OPEC's intention to gradually increase its production again. In recent years, OPEC+ had cut its production by 5.8 million barrels per day (or +/- 10% of its capacity) to support prices. But this was compensated by growing supply by non-OPEC countries, mainly in the Americas. OPEC+ is not willing to extend its production cuts for ever, as they want to recoup market share. The start of its planned tapering process has already been extended from October 2024 to January 2025 in view of recent pressure on oil prices. At their next meeting on 1 December, OPEC+ may still decide on further extensions or the pace of tapering production cuts. A full extension until the end of 2025 is rather unlikely. Very gradual tapering, coupled with more discipline from some members, could be a feasible outcome for the oil market.

Ahead of this crucial OPEC+ meeting, we remain Neutral on the Brent price with a target range of USD 70-80. But the downside risks are increasing, certainly in the event that OPEC+ ramps up its production too fast or does not reach a convincing agreement (or lack of discipline). Although the Chinese stimulus package could support Chinese oil consumption next year, we expect limited global demand growth over the next few years due to the energy transition. There remains some upside risk in the event of another escalation of the Israel-Iran conflict.

Patrick Casselman

CONNECT WITH US



[wealthmanagement.bnpparibas](https://www.wealthmanagement.bnpparibas)

DISCLAIMER

This marketing document is communicated by the Wealth Management Métier of BNP Paribas, a French Société Anonyme, Head Office 16 boulevard des Italiens, 75009 Paris, France, registered under number 662 042 449 RCS Paris, registered in France as a bank with the French Autorité de Contrôle Prudentiel et de résolution (ACPR) and regulated by the French Autorité des Marchés Financiers (AMF). As marketing material, it has not been prepared in accordance with legal and regulatory requirements aimed at ensuring the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. It has not been submitted to the AMF or any other market authority.

This document is confidential and intended solely for the use of BNP Paribas SA, BNP Paribas Wealth Management SA or their affiliates ("BNP Paribas") and the persons to whom this document has been delivered. It may not be distributed, published, reproduced or disclosed by any recipient to any other person, nor may it be quoted or referred to in any document, without the prior consent of BNP Paribas.

This document is provided solely for information and shall not constitute an offer or solicitation in any state or jurisdiction in which such an offer or solicitation is not authorized, or to any person to whom it is unlawful to make such offer, solicitation or sale. It is not, and under no circumstances is it to be construed as, a prospectus.

Although the information provided herein may have been obtained from published or unpublished sources considered to be reliable and while all reasonable care has been taken in the preparation of this document, BNP Paribas does not make any representation or warranty, express or implied, as to its accuracy or completeness and does not accept responsibility for any inaccuracy, error or omission. BNP Paribas gives no warranty, guarantee or representation as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (either legal, regulatory, tax, financial, accounting or otherwise) of any product or transaction. Investors should not place undue reliance on any theoretical historical information regarding such theoretical historical performance. This document may contain or refer to past performance; past performance is no guarantee for future performance.

The information contained in this document has been drafted without prior knowledge of your personal circumstances, including your financial position, risk profile and investment objectives.

Prior to entering into a transaction each investor should fully understand the financial risks, including any market risk associated with the issuer, the merits and the suitability of investing in any product and consult with his or her own legal, tax, financial and accounting advisors before making his or her investment. Investors should be in a position to fully understand the features of the transaction and, in the absence of any provision to the contrary, be financially able to bear a loss of their investment and willing to accept such risk. Investors should always keep in mind that the value of investments and any income from them may go down as well as up and that past performance should not be seen as an indication of future performance. Any investment in a product described herein is subject to the prior reading and understanding of the legal documentation concerning the product, and in particular the one which describes in details the rights and obligations of investors as well as the risks inherent to an investment in the product. Save as otherwise expressly agreed in writing, BNP Paribas is not acting as financial adviser or fiduciary of the investor in any transaction. The information, opinions and projections expressed herein reflect the opinion of their author at the time of writing; they are not to be relied upon as authoritative or taken in substitution for the exercise of judgment by anyone, and are subject to change without notice. Neither BNP Paribas nor any BNP Paribas Group entity accepts any liability whatsoever for any consequences that may arise from the use of information, opinions or projections contained herein.

As distributor of the products described herein, BNP Paribas may receive distribution fees on which you can obtain more information upon specific request. BNP Paribas, their employees or administrators may hold positions in these products or have dealings with their issuers.

By accepting this document, you agree to be bound by the foregoing limitations.

© BNP Paribas (2024). All rights reserved.

Pictures from Getty Images.

