2025

CORPORATE RISK MANAGEMENT OUTLOOK

STEERING THROUGH GLOBAL SHIFTS AND POLICY RISKS

MARKETING COMMUNICATION
AMERICAS EDITION | FEBRUARY 2025

BNP PARIBAS

The bank for a changing world

Introduction

Macro-economic and market environments have rarely been as unpredictable as today, with geopolitical and trade tensions again taking centre stage and the new US administration's stance fuelling uncertainty: large-scale tariff threats, strain on multilateral cooperation frameworks (such as NATO and the Paris Agreement), and tightening immigration laws, combined with deregulation in certain sectors, are creating ripple effects across sectors and markets.

This document, 2025 Corporate Risk Management Outlook: Steering through global shifts and policy risks, aims to provide corporate leaders with insights on risk management strategies to assist when making more informed decisions. Our objective is to equip them with a deeper understanding of the key drivers of uncertainty, the potential implications for their businesses, with the view to balancing a more uncertain business risk profile with a more stable financial risk profile through hedging.

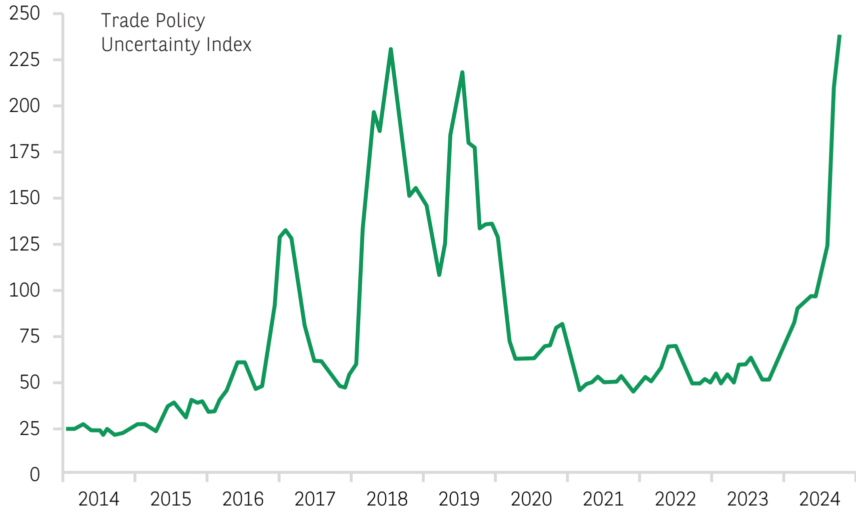
The document is structured to provide an overview of the key themes that will shape the corporate risk management landscape in 2025. Based on BNP Paribas Markets 360 views, we begin by sharing our macro-economic outlook, followed by a deep dive into the potential impact of tariffs on corporate business models across geographies and sectors. We then discuss practical risk management strategies to address investment and cash flow uncertainties, mergers and acquisitions as a means to generate growth, the challenges of de-globalization, the potential impact of inflation on corporate margins and competitiveness, and the challenges of decarbonisation amid divergence in climate policies worldwide. Finally, we highlight potential scenarios that could derail our base case and offer options on how to prepare for these risks.

Navigating macro-economic unpredictability in 2025

The global economy, and in turn financial markets, face a host of 'known unknowns', many of which will be shaped by the economic and trade policies of President Trump, their timing and sequencing, as well as the response from other governments.

Trade policy uncertainty has returned with a vengeance

With President Trump having the mandate to implement his policy agenda, our starting point is to assume **that higher trade tariffs (25pp increase on China, 3pp increase on the rest of the world on average), tighter immigration policy, deregulation, federal spending cuts and extended tax cuts, are coming**.



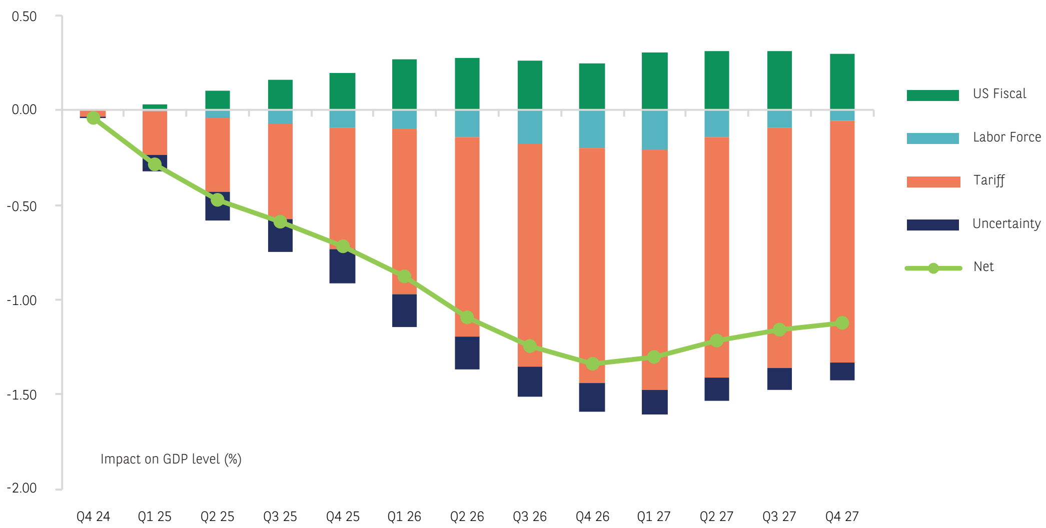
Data is smoothed quarterly.
Sources: Economic Policy Uncertainty, Macrobond, BNP Paribas

In our view, this combination of policies is likely to raise US inflation (to ~4%), cause the **US Federal Reserve to keep policy rates on hold throughout 2025**, and slow US economic growth. We think rate cuts will resume in 2026, after the Fed has greater visibility on inflation trends, and as weaker economic activity gives it greater confidence that underlying price pressures will cool.

Renewed protectionism is also a net negative for global GDP growth; together with the continued disinflationary impulse from China, this means inflation should remain at more subdued levels outside of the US (2% y/y on average in 2025 in the Eurozone, and 0.8% in China) in our view. We expect many central banks outside of the US to ease policy settings (we expect rate cuts to 2% by the ECB). **This suggests central bank divergence will be a key theme in 2025, and along with it, a stronger dollar**.

Looming tariff risks and tighter US financial conditions create a **challenging backdrop for Emerging Markets, though they appear better equipped to weather the storm**, we think. Indeed, most external imbalances are smaller today compared with the global financial crisis, lessening balance of payments crisis risks. Furthermore, we think most EM central banks should successfully bring inflation back to target by 2026, allowing them to lower interest rates, even at the expense of some currency depreciation (CEEMEA and EM Asia). For those that don't have their monetary and fiscal policy credibility houses in order (large parts of Latam), policy trade-offs (growth, inflation and FX performance) will be much trickier to navigate as higher global risk premia are demanded.

We expect the new US policy stance to be a drag on US economic activity over the next few years



Sources: NiGEM, BNP Paribas

Down but not out?

A key consideration, and upside risk to our outlook, is whether other governments respond to greater protectionism with compensating measures that could stimulate growth. For example, we think the Chinese authorities could deliver further fiscal stimulus in the face of structural and cyclical headwinds, which should help to stabilise the growth picture.

In Europe, we think higher defence spending, either as part of a deal with the US or to support 'strategic autonomy', could help to lift GDP over time. German elections on 23, February could also lead to more growth-friendly policy including a more flexible fiscal policy as well as structural reforms.

Fiscal fragilities.

Many of these forces are likely to have material impacts on the fiscal policy outlook for advanced economies. After all, government spending faces large structural upward pressures such as higher defence needs, aging populations, the low-carbon transition, and higher debt servicing costs.

At the same time, fragile political situations – seemingly even in countries with large majorities such as the UK – make it very difficult to raise revenue through higher taxation. As a result, concerns about fiscal policy could re-emerge, particularly in the event of a shock to yields and/or growth.

Trade uncertainty and monetary policy divergence to keep USD and volatility elevated.

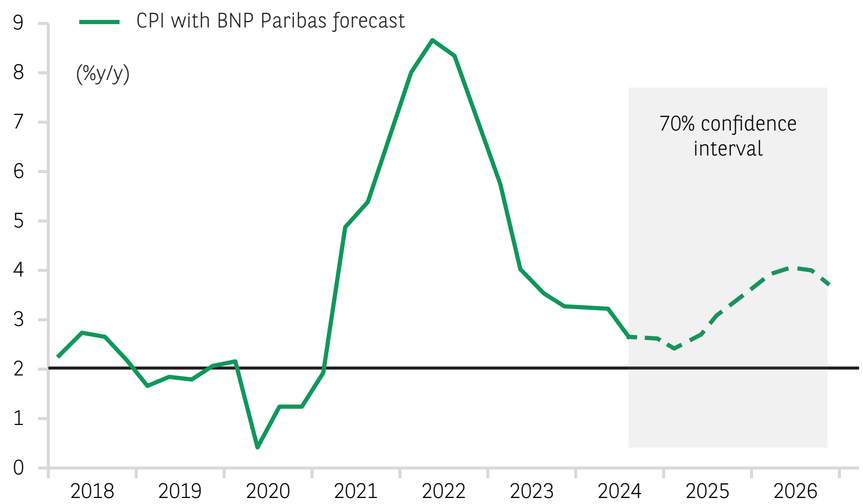
We expect the USD to appreciate further if our assumptions on tariff policies and an on-hold Fed are borne out. This strength, in our view, should be most pronounced against currencies with central banks that are willing to tolerate currency weakness to stimulate growth and currencies most impacted by tariffs (in particular CNY, EUR, CE3, CAD and MXN). In contrast, currencies with more cautious central banks or those less impacted by tariff policies could be more insulated from USD strength (for example, AUD, NOK, ZAR). We expect EURUSD to decline to parity and USDRMB to rise to 7.50 by the year's end.

This backdrop of trade uncertainty, monetary policy divergence and a stronger USD should also see FX volatility rise. Importantly though, markets may whipsaw on headline risks, which can be dovish or hawkish relative to expectations, so we also expect vol-of-vol to increase.

Global Central Bank Rate cuts (ex-Fed) to lead yields lower, though fiscal risks may provide some challenge.

As most central banks shift towards rate cuts, we expect bond yields to be broadly lower this year, though US Treasuries may prove more stubborn with tariff-driven inflation risks keeping the Fed on hold. Fiscal concerns could see term premium build in longer-tenors, as low growth and additional defence spending could spark concerns over already large budget deficits. We expect 10y Bund yields to decline towards 2%, while 10y US Treasuries may be more stable until growth deteriorates.

Large swathes of tariffs to lift inflation



Error ranges measured as +/- root mean squared error of projections for 2004-2023 released in fall by private and government forecasters, compiled by Federal Reserve.

Sources: BLS, Federal Reserve, Macrobond, BNP Paribas

Drill baby drill versus sanctions and OPEC+ supply factors to buffet oil prices this year.

The path for crude prices has become a complex interplay between contrasting factors. Russian and Iranian sanctions, looser US energy production regulations, tariffs on China and elsewhere, the crisis in the Middle East, and the usual myriad of weather fluctuations and maintenance periods will buffet oil prices throughout the year. In the near-term though, we expect prices to dip as the demand loss from refinery maintenance and potential US tariffs outweigh the supply lost from Russia sanctions. Further out, continued OPEC+ compliance (unless USD 85/bbl is sustainably reached), lesser sanctions on Russia (to negotiate a peace deal with Ukraine), a ramp up in Iranian sanctions and further tariff implementation, should see prices settle around USD 75/bbl by the end of 2025 in our view.

Upside risks to power prices may be skewed to Q1 driven by concerns over the gas balance and geopolitical risks. However high renewable capacity buildout may ease upside price pressures from Q2, particularly in France which is boosted by nuclear generation, widening the spread to German power.

Tariffs headwinds to equities may be counterbalanced by increasing policy support.

Tariff policies will be a key headwind for equities this year. Increasing monetary and fiscal policy support (in Europe and China), positive real wages, a return to loan growth, housing/construction bottoming and potential peace in Ukraine, could provide some support though. Regionally, we see scope for cheap European equities to outperform Japanese peers and are bullish on domestically-oriented Chinese names. Sectorally, we expect tech to outperform (with continued structural earnings growth and the AI theme benefitting Software), see upside for cyclicals (supported by inventory re-stocking and the end of the post-covid goods spend normalization) while Telcos may underperform (with higher-for-longer bond yields and a slowdown in renewable investment growth).

Credit spreads to remain rangebound in 2025

We expect credit spreads to remain rangebound in 2025, reflecting resilient investor appetite as yields remain at high levels, while supply is likely to increase. Additionally, we note that the credit market is showing mid-cycle traits, with few imbalances. Despite more sluggish growth in Europe, we expect European credit to outperform the US, supported by a more dovish ECB. Economic data and government policies are likely to fluctuate this year, though until clear trends emerge or policies are realised, the market may be patient in discounting them.

Diverging energy policies between the US, Europe and APAC

The global energy landscape is poised for significant changes, driven by diverging policy approaches between the US, Europe, and APAC, particularly in the areas of renewables and electric vehicles (EVs). In contrast to the US and Europe, where EV sales have declined, China is expected to continue its dominance in the EV market, with sales projected to reach 13 million units in 2025. Meanwhile, China is also set to lead in solar power installations, with over 200 GW expected to be added this year, compared to 15-20 GW in the US and 50-60 GW in the EU.

The policy changes introduced by President Trump are also likely to have a significant impact on the US energy sector. Some of the key changes we envisage include: the elimination of credits for new EV purchases; new tax credits for lithium production and nuclear power development; the removal of waivers limiting ICE auto sales in states that adopted California's Advanced Clean Cars II program; a cessation of DOE funding for solar and wind projects (though nuclear and biofuels funding may continue), continued infrastructure loans to develop grid capacity (though maybe at the municipal level); loans for mineral projects and biofuels may continue, though loans for EV production appear unlikely.

Adapting to changes in trade policies

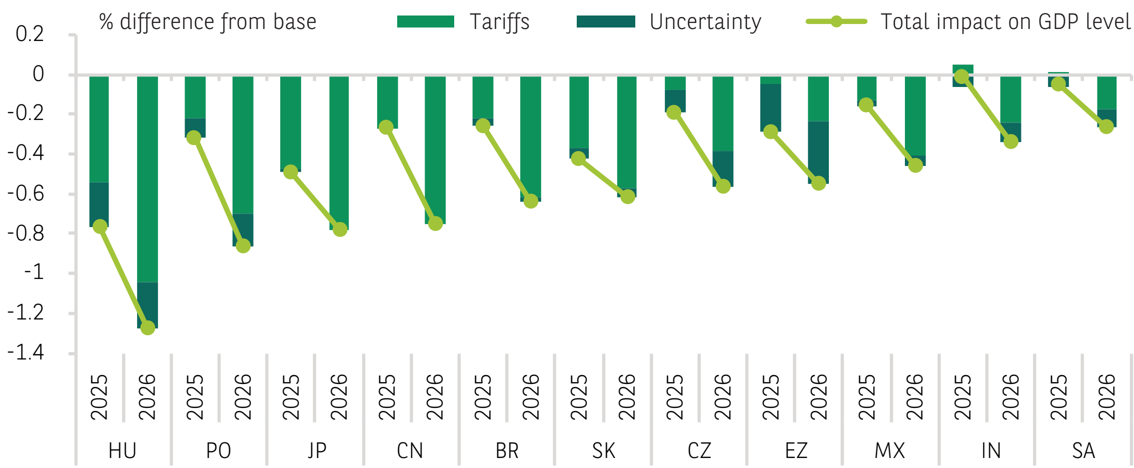
We expect the US policy shift to be felt across the world, from both an economic and geopolitical perspective, as President Trump has shown a clear sensitivity to trading partners that have a significant trade surplus with the US. This shift is likely to have a notable impact on global markets.

Eastern & Asian countries, most impacted by tariffs

We think higher US tariffs could lower 2026 GDP by 0.7% for developed markets and 0.6% for emerging markets, on average, relative to the baseline. For emerging markets that are highly integrated into the global supply chain, such as Eastern European or Asian countries, including Vietnam, South Korea, Taiwan, Thailand, and Malaysia, the negative impact on GDP could be around 1% or higher. Although these countries could benefit from trade diversification and some supply chain rerouting, their large trade surpluses with exports to the US accounting for more than 10% of GDP and with high value-added content coming from China make them sensitive to both direct and indirect shocks linked to rising US/China tensions.

For China and the eurozone, a worsening of their already weak growth outlook is likely to prompt fiscal and monetary policy support. In the eurozone, we think this reinforces the need for continued ECB rate cuts until mid-2025 and may even be a catalyst for higher defence spending and further EU integration. In China, we expect larger fiscal measures from the March 2025 National People's Congress and further PBoC rate cuts.

US tariffs policy lower global growth.
Highly integrated economies suffering the most.



Source: BNP Paribas

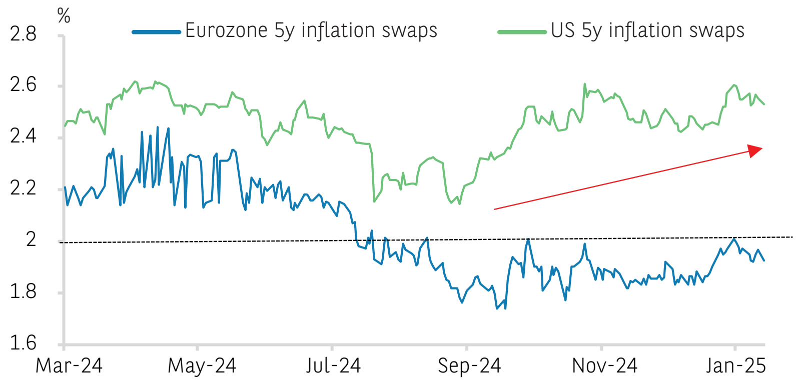
Impact on US consumers and exporters

We think that in practice, American consumers would pay the largest share of the tariff through higher inflation, with another large part absorbed by US exporters through the adverse impact of a stronger USD. While the USD has rallied and inflation expectations have risen since the US election, we do not think tariff policies are fully priced yet – tariff implementation should still support the USD in our view.

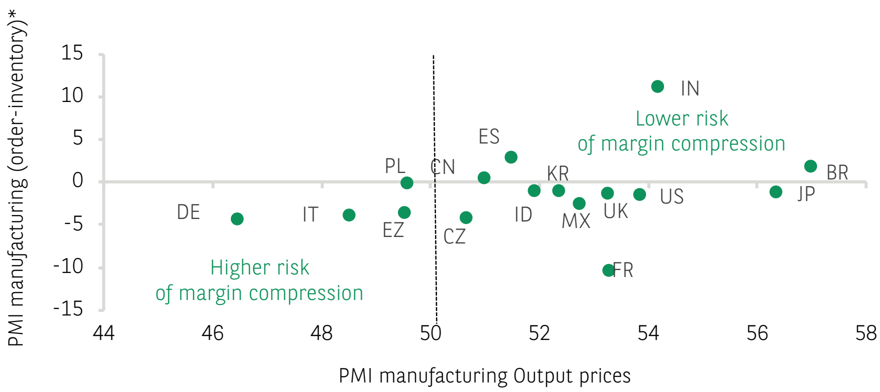
The MXN, CAD, CNH, EUR, and its proxies (Central and Eastern Europe) appear to be particularly vulnerable to tariffs, in our view.

In contrast, we do not expect US retailing margins to be negatively impacted. Instead, US retailers may benefit from the situation, as they did during the Covid supply chain disruptions, and potentially grow their margins amid the volatility. Additionally there seems room for narrowing in foreign exporter margins, particularly to countries and regions where there is considerable excess capacity as in many Eurozone countries already dealing with low orders relative to inventory. This may limit their capacity to raise prices to protect margins in case of any adverse supply shocks.

Markets are repricing upward US inflation risks



High inventory weigh on margin in eurozone countries



*Average, last three months
Source: BNP Paribas

More politically sensitive sectors may face higher exposure to US trade restrictions or to retaliatory measures by trade partners, while sectors whose value chains cross at-risk borders would face larger impact from newly raised trade barriers. BNP Paribas Exane analysis[1] shows that there are more companies exposed to shifts in tariff policy within the Autos, Beverages, Luxury, Tech Hardware, US Retail, MedTech and US Utilities sectors. Company-level impacts will nevertheless often be relative to industry peers, and will depend on export reliance, manufacturing footprint, production flexibility, and in short on corporates' ability to pass on price increases down their value chains.

[1] Tariff fallout: Sector winners and losers, 4 Feb 2025

Staying ahead of global shifts and policy uncertainty

Investment uncertainty

In the 2024 Corporate Risk Management Outlook, we argued that the focus of corporate leaders would shift away from responding to shocks and towards new business-building, fuelled by the megatrends of the energy transition, clean mobility and digitalisation. This view was underpinned by our expectation of a controlled decline in inflation and a normalisation of central bank policy rates – the "soft landing" scenario.

This resurgence in capital expenditure was clear to see in H2. Corporate M&A volumes rose as companies acquired targets to build new capabilities. AI and clean energy drove investment in venture capital and data centres. And many (but not all) new governments strengthened their commitments to renewable energy, mobilising billions of USD of corporate and institutional capital.

The global push for deregulation and competitiveness-driven policy is likely to support even greater volumes of investment and M&A in 2025. However, recent transitions of political leadership and elevated trade-related uncertainty are forcing companies to think more carefully about where and how they invest over the coming years.

Beyond their direct micro- and macro-economic impact, tariff and trade developments also entail other business disruptions that may shape medium-term opportunities for corporates. These include changes in commercial focus markets and pricing strategies; changes in relative competitiveness of manufacturing sites across the globe (and hence the need to re-allocate capital); and changes in demand for different sectors and hence supply chain vulnerabilities. All of these are still very uncertain.

Meeting the requirement to invest, whilst also navigating these unknowns, will be a key challenge for treasurers and finance directors in 2025. As always in situations of ambiguity, leaders may find greater success in developing hedging strategies which "control the controllables". For companies seeking to grow through investment, this means developing a clear understanding of future financing and re-financing risks, including the constituent parts of interest rates and credit spreads, with a view to stabilising an important element in the business case for investment.

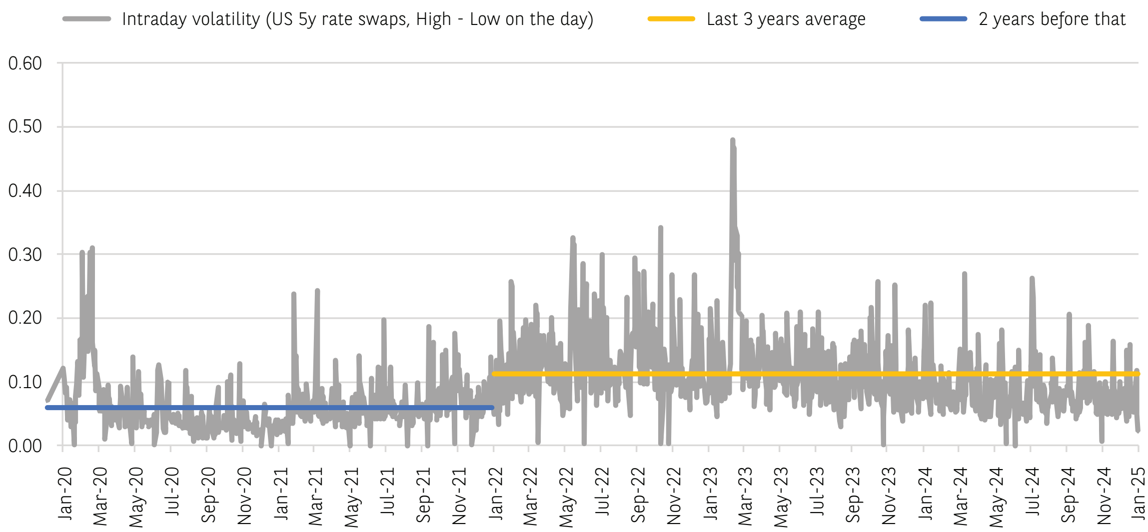
Understand and manage cost of debt sensitivity on a forward-looking basis

Many corporates still benefit from attractive fixed rate financing costs fixed in 2020 and 2021. However, the higher rates seen over the last two years have significantly increased the cost of floating rate debt. This effect will compound once historically attractive fixed rate debt starts to roll off. In this environment, it is all too easy to look at "static" interest rate risk by focusing on the current stock of debt and fixed-floating mix. But accounting for re-financing risk and the short-term volatility will often show a very different picture, with a greater number of cash flows and a higher interest cost at-risk.

Increase hedged ratios and extend hedging to future interest rate risk

2025 began with a sharp correction as markets priced in a Fed pause earlier than anticipated. As a result, interest rate curves in major economies have steepened sharply, pushing marginal funding costs back to highs seen last year before the central bank cutting cycle began. The probability of a Fed hike by end 2025 has been rising steadily since September 2024 and intra-week volatility has also surged.

Short-term rate volatility has starkly increased since 2022



Sources: BNP Paribas, Bloomberg

With rates in most G10 and EM currencies likely to remain volatile throughout the year, an agile and flexible risk management approach will be important, including:

- Increased hedging ratios, particularly on risks associated with future (re-)financing activity;
- Protecting against a sharp re-widening of credit spreads from current ultra-low levels, through pre-funding and/or hedging instruments; and
- Greater use of flexible instruments such as flexi-swaps, caps, floors, collars, swaptions or contingent pre-hedges to protect investment plans, while avoiding over-hedging or currency mismatches in the event of strategy change from the board

Short (and the ultra-short) as well as the long-term risks

With the prospect of greater geopolitical instability and more unpredictable policy, short-term interest rate and FX volatility is likely to remain high for the foreseeable future. Assumptions made on financing levels for a board or committee one week could be wildly "off-market" the following week. The cost of financing for a capital markets issue could rise considerably between a decision to issue and market pricing, whether it be a matter of weeks, days or hours.

For this reason, short-term hedging strategies may provide valuable protection again in 2025. Forward-start swaps or Treasury locks may help issuers ensure funding activity meets approved criteria at pricing. While many may consider this over a matter of days or weeks, others may feel that intra-day instruments also offer a good risk/reward on choppier days or when data prints or key policy decisions are anticipated. The longer the maturity of the debt instrument, the greater the intra-day risk.

Risk managers' approach to yield curve shape is also gaining renewed focus particularly in USD. Since the Fed began cutting rates in September 2024 we have seen a sharp rebound in 10 year and beyond Treasury yields. This comes after the longest recorded period of curve inversion (2y/10y) kicked off after the Fed raised rates, with the long end finally moving higher in concert with Fed easing last year. In addition to monetary policy factors, fiscal policy in the wake of the 2024 US Presidential election is likely also impacting curve shape. Expectations for pro-growth, inflation-increasing policy measures including on tariffs, immigration, and taxes are all contributors to higher long end rates. This sell off has helped rate differentials between the US and Europe for example, reach their widest levels in the last few years. That gap has created the best carry for net investment hedges for US corporates into Europe over the last several years, and is likely to continue fuelling an increase in activity in this area. However, now that the Fed appears to be on pause, yield curve steepening has become much more nuanced and unpredictable. For those with floating rate exposure and/or near term refinancing needs, there is an opportunity to lock-in longer tenors (through pre-hedging) now prior to further curve steepening. For those with primarily fixed rate financing, the previous few years have presented little (if any) opportunity for positive interest rate carry (i.e., yield curve has been inverted or flat) from fixed to floating swaps. Nevertheless, corporates generally have identified a preference to rebalance fixed/float mix in favor of more floating rate debt, in the context of central bank easing, albeit at a slower pace than previously anticipated. Positive interest rate carry opportunities should again appear as, and when, the yield curve steepens further, which should serve as a catalyst for a broad move from fixed to floating. Some corporates may consider selling interest rate swaptions now to begin earning premium in anticipating of higher long end rates and resulting carry that could be achieved via receiving fixed rate against fixed rate financing.

Cash flow uncertainty

Mitigating uncertainty through flexibility

Policy uncertainty, exacerbated by ongoing geopolitical tensions, is creating significant challenges for corporate treasurers in managing financial risks efficiently: in addition to macro-economic and business sentiment impacts, these unpredictable developments may substantially affect supply chains and realized cash flows, making it crucial for treasurers to adapt their risk management policies to avoid under- or over-hedging brought about by sudden policy-driven developments.

We therefore expect corporates to consider more flexible hedging strategies to build resilience against unexpected business developments as well as market moves. Building flexibility can for instance be achieved by adjusting hedge durations and ratios, diversifying hedging instruments and striking a balance between systematic and opportunistic approaches to cash flow hedging.

We therefore expect an increased interest in FX option-based strategies, which can help alleviate the rising uncertainty in potential exposures while protecting against adverse market moves. For instance:

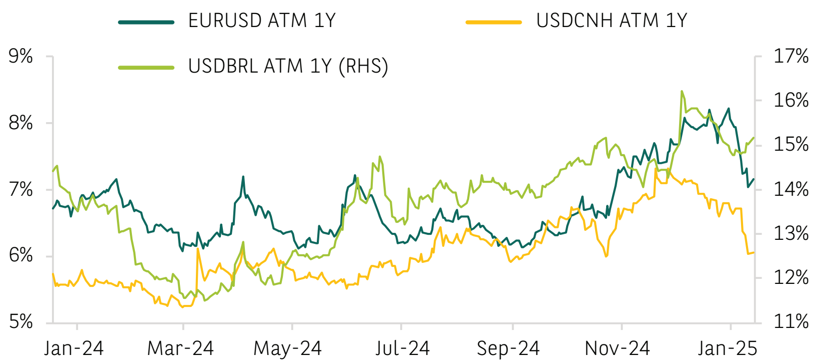
- USD sellers may consider option-based strategies, such as collars, to reduce carry costs and increase hedging ratios to lock in favorable USD levels.
- USD buyers might leverage high carry to enter into participating strategies, benefiting from potential USD depreciation. Relatively high volatility levels could also incentivise corporates to engage in outperformance strategies and optimize existing in-the-money hedges.

Emerging Markets: A Case-by-Case Approach

The strong USD and elevated FX volatility pose specific challenges to corporates looking to hedge Emerging Markets (EM) currencies. In 2025, policy uncertainty could have wide-ranging consequences on fiscal policy and debt sustainability in specific EM geographies, making a tailored approach essential. Latin American currencies may underperform as the US economy slows down, while MXN may be vulnerable to tariff threats. CEE currencies may face pressure due to dovish central banks and exposure to rising trade barriers. In Asia, we expect USDRMB to rise towards 7.50, with KRW and THB also particularly vulnerable.

Against this backdrop, corporate treasurers may consider the following strategies to address EM exposures:

- Using options and shorter-dated hedges to gain flexibility, while increasing hedging ratios to address potential EM currency depreciations.
- Extending hedge maturities for exposures to selected geographies, such as China, where the carry benefit for RMB sellers against USD is significant for tenors beyond one year.
- Initiating or expanding net investment hedging in selected Emerging Markets on an opportunistic basis, using model-based approaches like the Early Warning Signal (EWS) to optimize timing, entry points and cost of carry.
- Switching to Basket options to increase option-based hedge rates while reducing overall premium spent compared to Vanilla options in a context of elevated volatility.



Source : BNP Paribas. Data as of 13th Jan 2025

Optimizing Excess Cash: A Tailored Approach

The uncertainty surrounding the 2025 cash flow requirements, including working capital and investment initiatives, is likely to incentivize corporate treasurers to focus on short-term investments in order to manage cash balances. Amidst a global decline in interest rates, corporates, depending on the parameters within their investment policies and risk management approaches, can capitalize on Dual Currency Deposits to significantly enhance yields over periods of 1 to 6 months, leveraging high volatility in foreign exchange markets. Treasurers with a medium-term perspective over their cash investment needs for 2025 may consider securing future investment yields or locking in attractive rates over longer horizons, using straightforward products such as fixed-rate notes, credit-linked notes (CLNs), or partially paid certificates. These strategies are designed to assist treasurers to seek to make the most of their cash holdings, even in a low-yield environment.

Mitigating Cash Flow Uncertainty through Automation

In today's increasingly complex and fast-paced market environment, digitalization and automation have emerged as essential tools for corporate treasurers. Automation is a key enabler to streamline processes, tap into efficiency gains while strengthening internal controls. In addition, as forecasting becomes increasingly challenging, automation can also provide a competitive edge in managing cash flow uncertainty.

As exemplified by BNP Paribas' Kantox suite of strategies, digitalization enables treasurers to gain real-time visibility into their FX exposure through API connectivity, which can integrate with forecasted transactions, firm commitments and balance sheet items. This, in turn, allows for more precise hedging of sales, purchase orders, and balance sheet items through micro-hedging programs that help mitigate the risk of under- or over-hedging.

We therefore expect corporate treasurers to further embrace automation in order to make more informed decisions, respond more effectively to market fluctuations, and ultimately, better navigate the challenges of cash flow uncertainty.

Accelerating growth through M&A

2024 was a robust year for mergers and acquisitions (M&A), with global volumes surging by over 10% and nearing pre-pandemic levels, despite various headwinds such as geopolitical tensions, high interest rates, and expanding anti-trust and foreign direct investment (FDI) regimes. Notably, larger deals (those above $2 billion) experienced a significant acceleration, increasing by 20% year-over-year, driven by corporates who accounted for nine of the top 10 largest deals of the year., US M&A deals topped $10.5tn in 2024 up 31% and 4% on 2022 and 2023, respectively (source: Dealogic).

M&A activity poised to pick up in 2025

Looking ahead to 2025, we anticipate M&A volumes to accelerate further, likely driven by several key factors:

- A more supportive regulatory stance and lower interest rate environment, although the pace of central bank cuts remains uncertain, particularly in the US.
- Continued de-risking of supply chains through local or regional production build-up given looming threats over international trade
- The continued rise of AI-driven transactions, as corporates seek to capitalize on this transformative technology and sponsors position in fast-growing sectors such as tech and healthcare.
- A growing desire among corporates to transform their portfolios by acquiring new companies and divesting non-core assets to unlock value, target specific investor bases, and demonstrate greater strategic clarity. This trend is being driven in part by activist campaigns and the need for regional splits to address inefficiencies and additional costs associated with global operations.
- Healthy corporate balance sheets overall, providing the flexibility to fund large M&A transactions.
- The ongoing activity of sponsors, who will remain active in 2025, driven by the need to return cash to limited partners for assets bought a few years ago and to invest dry powder raised from investors in recent funds.

Regulatory uncertainty still a hurdle for M&A completion

Despite the optimism surrounding M&A volumes, there are still several uncertainties that will require corporate treasurers to manage risk dynamically, given the expected volatility in capital markets. These risks include:

- Market risks, with the outlook for FX, inflation and interest rates remaining uncertain, and market volatility expected to remain elevated in 2025.
- Regulatory uncertainties surrounding M&A transactions, which could impact both the timing and completion of deals.

While there is a consensus that the environment for M&A transactions is becoming more business-friendly, this is likely to be true primarily for domestic transactions, with little incentive to remove barriers for foreign investments. The overall backdrop of de-globalization and domestic protectionism may create additional uncertainty for cross-border deals, which face a higher risk of political backlash, as recently illustrated by the US decision to block Nippon Steel's proposed $15 billion takeover of a US steel company, while more and more foreign investment control regimes sprout across the globe, including for outbound transactions. In addition, while US antitrust enforcement is likely to soften overall, transactions in sensitive sectors like tech may face continued scrutiny.

M&A hedging strategies to anticipate risks and build resilience

In this context, we expect hedging to be a key consideration at the Board room level and to be considered earlier in transformative acquisitions. Boards and investment committees may want to ensure that the forecasted returns of their acquisitions or divestments are immunized against adverse market movements at an early stage. Given the extended timeline for completion compared to previous years, with many large transactions expected to close over a year after initial announcement, waiting for the successful closing of M&A transactions is no longer a viable alternative.

With corporate treasurers involved earlier in M&A discussions, we expect more bespoke and dynamic rates and FX M&A hedging strategies between investment decision and closing to be considered. Illustratively, we have seen clients using options at an early stage of a projected M&A to capture market entry points more favorable than their initial business plan. This hedging strategy has often been adjusted later in the deal cycle, depending on the perceived risks of failure and/or delays.

We have also observed some acquisitive clients opting for vanilla hedging strategies, as they perceive limited uncertainty regarding deal closing, while incorporating a degree of timing flexibility through FX forwards or interest rate swaps with a flexible start, to perfectly match M&A closing. Historically, these features have been relatively inexpensive due to the relatively low volatilities seen in recent years.

Adjusting M&A risk management strategies to a more volatile market backdrop

While options proved effective in 2024 due to low volatilities, especially on FX, they are likely to become more expensive in 2025. As a result, clients may prefer lower-cost strategies such as deal-contingent hedges, which offer protection against M&A failure for a fraction of the corresponding option or swaption cost, or participating hedges, which offer potential participation in favorable market movements in exchange for a less favorable strike in the corresponding forward or swap.

We expect deal-contingent and participating hedges to spark particular interest among US corporate clients looking to divest European assets as the carry benefit will cover part (if not all) of the embedded option cost. On the other hand, US clients looking to acquire European assets could consider locking spot levels via forwards or benefitting from participation in further USD strengthening via FX Collars in light of attractive skew levels. Both strategies may incorporate a deal-contingent feature if warranted.

For new investments, corporates may consider long-term net investment hedging to protect their investments from adverse FX moves. Further, multinational corporates investing in EM can leverage recent favorable currency moves to lock in lower costs. Regarding cash flows generated from these EM assets, corporates can consider zero-cost risk reversal strategies to hedge these cash flows against tail risk events given the high geo-political uncertainty.

In 2025, corporate treasurers may therefore need to adopt a flexible approach to M&A risk management, navigating carefully to minimize hedging costs while providing certainty to M&A teams and management on crucial market-driven parameters.

De-globalization

The rise of economic nationalism and trade protectionism is reflected in the sharp increase in trade restrictions worldwide, jumping from about 1,000 in 2019 to 3,000 in 2023 according to the IMF, and is anticipated to further rise under the second Trump administration. The impact for corporates is two-fold, with (1) trade-off between margin compression and market share loss and (2) need for realignment of suppliers in light new restrictions.

The impact is even more relevant for domestic firms in countries facing a weak cyclical position (such as the eurozone, CE3 and pockets of EM Asia) as they may struggle to pass higher input costs along the rest of the price chain, and ultimately on to consumers, thus taking a hit to their margins. We explore below the key themes in the context of increased trade barriers between US and China.

US-China Trade War 2.0?

Trade tensions between the US and China create a highly uncertain economic environment for corporates, as well as rising regulatory and reputational risks. While US tariffs are likely to weigh on Chinese export growth in 2025, China is also facing challenges in its core strengths, such as a decline in its once-abundant cheap labour force and a shrinking population. As China risks mount, corporates are looking to 1) re-route exports; or 2) relocate their supply chains to countries with lower geopolitical risk, adequate physical infrastructure, skilled workforce, and existing industrial environment.

China's indirect exports to the US via ASEAN and Mexico between 2017 and 2023 have accounted for about 12% of the direct export market share lost by China. This suggests some corporates have been partially successful in re-routing exports from China. Trade rerouting in 2025 may, however, encounter two-sided risks. On the one hand, Chinese companies have built production capacity overseas which could enable them to bypass potential tariffs. On the other hand, the EU and emerging markets have also taken actions on Chinese products due to growing competition anxiety and supply-chain risks.

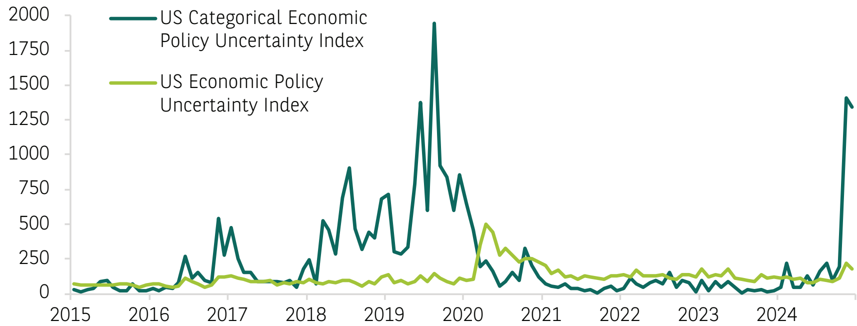
Two specific sectors are particularly at risk:

1. **Semiconductors**: where major Asian economies such as China, South Korea, Japan, and Taiwan continue to dominate and have seen a pick-up in exports in 2024, however risks still loom in 2025 with tariffs on Chinese semiconductors slated to increase from 25% to 50% by 2025 and the US gradually expanding its entity list to add Huawei and SMIC, China's largest semiconductor manufacturer. We have also seen retaliation from China with the recent ban of chips manufactured by Micron and export restrictions on germanium and gallium, 2 key minerals for semiconductor manufacturing.
2. **Energy Transition**: where China has also been a market leader in clean-tech manufacturing – as of December 2023, the country supplied over 80% of the world's solar modules, 60% of wind turbines and 80% of battery components. US increased tariffs on Chinese EVs and its related equipment by 4 times in 2024, while EU increased tariffs on Chinese EVs by 2-3 times. This is likely to impact the competitiveness of Chinese suppliers and consequently we may see Chinese corporates look to establish manufacturing capabilities in the US, the Trump administration permitting.

Managing financing and currency mix

In the re-routing or relocating process, corporates need to develop corresponding risk management strategies in these new local markets. During this process, corporates must also consider their FX exposure and the impact from higher volatility in FX markets globally.

High trade uncertainty and low economic policy uncertaintly support high FX vol risk premium



Sources: Baker, Bloom & Davis, Bloomberg, BNP Paribas

For new investments, corporates may consider long-term net investment hedging to protect their investments from adverse FX moves. Further, multinational corporates investing in EM can leverage on favorable currency moves to lock in lower costs. Corporates may for instance consider using options to hedge cash flows against tail risk events given the high geo-political uncertainty.

Anticipating fiscal / credit crisis:

To navigate the uncertain environment, treasurers will need to be nimble and monitor local interest rate environments and bank lending conditions. For instance, China's credit market in 2025 is expected to have abundant onshore liquidity due to low interest rates and accommodative bank lending.

This will likely lead to (1) on the issuer front – financing needs being switched to onshore bank loans and bond issuance, and offshore issuance may focus solely on refinancing or share buyback needs; (2) on the investor front – onshore funds may continue to seek cross-border opportunities to enhance returns; (3) overall – the level of credit events could remain relatively low.

For corporates with excess onshore liquidity in EM geographies, tight regulations may restrict cash repatriation and result in trapped cash situations. Such corporates may consider structured credit-linked certificates, and quantitative investment schemes to enhance yields on trapped cash, as well as other strategies depending on the geography and the nature of business.

Is inflation here to stay?

The high inflation that followed the COVID-19 pandemic, partly caused by supply chain disruptions and exacerbated by the war in Ukraine, has had far-reaching impacts on corporates.

Inflation risks becoming acutely felt by corporates

Inflation led to increased costs for most businesses, particularly those with high energy and raw material inputs. Whilst many corporates were able to pass these costs to consumers through higher prices, or even widen margins, sectors with less pricing power, such as hospitality, proved more vulnerable, especially in the US.

Navigation inflation risks: a new reality for corporates

Moving into 2025, with less fiscal headroom in some regions, such as Europe, increased competition at global level and with consumers facing cost of living constraints, pricing power is expected to be more limited, reducing, in turn, the ability for corporates to mitigate potential cost increases.

Moreover, whilst inflation has recently eased in most Western economies, driven lower mainly by energy and food prices, various upside risks remain including:

- Potential US-led tariff implementation and second-round effects
- Currency depreciation vs USD
- Uncertainty over the pace of rates hikes/cuts;
- Tight labour markets (US) and sticky service inflation;
- End of government support for household bills;
- Decarbonisation and re-designing of global supply chains
- Geopolitical tensions and their impact on energy prices

Hedging against uncertainty: the future of inflation management

Softening levels of inflation, heightened uncertainty, as well as the difficult experience of cost inflation and commodity price shocks over the last 3 years, will lead more corporates to explore hedging those risks. In fact, this trend has already started, with inflation and commodity derivatives used by corporates in more countries, sectors and situations. This trend is accelerating as more companies adopt a proactive approach towards these exposures, and as old and/or new contractual exposures get (re)negotiated to include formulas and underlyings that are hedgeable with derivative instruments.

Decarbonization

The incoming **US administration's policy stance creates significant challenges for global decarbonization efforts**, and is likely to lead to a **divergence in climate policies worldwide**. The Trump administration's rollback of Environmental Protection Agency (EPA) regulations, potential repeal of the Securities and Exchange Commission's (SEC) climate disclosure rules, withdrawal from the Paris Agreement on climate change, and potential wind-down of part of the Inflation Reduction Act (IRA) may hinder efforts to reduce greenhouse gas emissions and slow the development of electric vehicles and renewable energy sources in the US. These deregulatory actions may also undermine the motivation of other major emitters, such as China and India, to uphold their climate pledges.

Navigating policy uncertainty in the low-carbon transition

Uncertainty surrounding the long-term viability of IRA-related incentives may lead companies to **hesitate in making large-scale investments, pause investments, or redeploy capital in countries with stronger climate policies**, such as China or the EU.

While acknowledging these headwinds, we nevertheless expect corporates to continue to deliver on the low-carbon transition, albeit with more uncertainty on policy and fiscal support.

Corporates may also face reduced access to subsidies in the US market, while fossil fuel energy sources are re-prioritized. As a result, we anticipate increased demand for working capital strategies related to energy transition and security of supply.

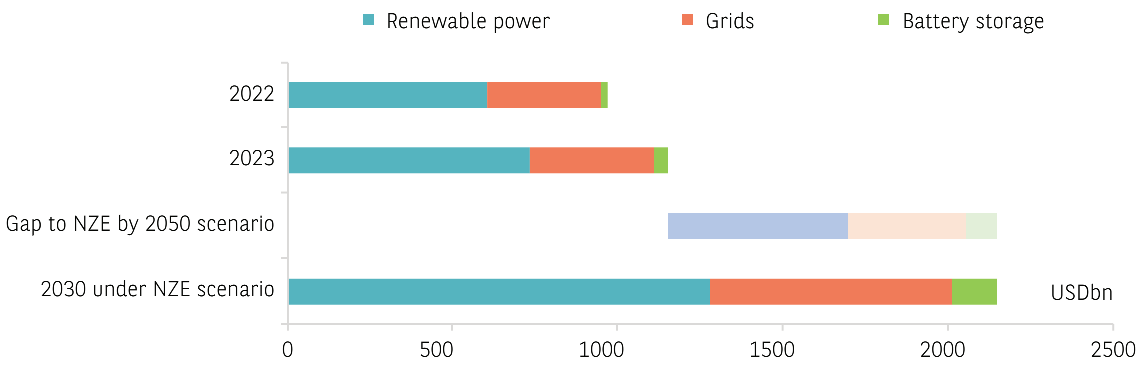
Unexpected policy shifts may also lead to price fluctuations and uncertainty among market participants, with higher market volatility creating further risks to the energy transition and destabilizing supply chains. In this environment, we expect corporates to seek enhanced commodity hedging strategies, focusing on metals (such as battery metals and metals for renewable energy) and energy markets.

Further, when corporates hedge, they are showing continued interest in reducing their exposure to margin calls, for instance through liquidity swaps for those using exchange-listed futures, or through bank-issued collateral substitution or margin waiver strategies.

The ongoing **electrification megatrend is expected to** require s**ubstantial capital expenditures for grids, renewable energy sources, and energy storage**. We are prepared to support our clients with strategic long-term hedging programs in raw materials and innovative strategies, such as co-investments or prepayments in energy flexibility assets (battery energy storage systems), to mitigate the balance sheet impact of these investments.

COP29 pledges would translate into 1.5TW energy storage capacity and add or refurbish 25 million kilometres of grid globally by 2030

Investments in renewables, grids and battery storage for net zero emissions to be reached by 2050 (historical versus 2030)



Sources : NiGEM, BNP Paribas

Low-carbon transition projects: a new outlook for risk management

Given the choppy policy backdrop, we expect renewable project developers to systematically assess their market exposures across FX and rates, but also in inflation and commodities at earlier stages of project developments. We will continue to assist project sponsors in analyzing indexations in supply and maintenance contracts to identify exposures that can be hedged from an early stage to de-risk project business models, secure bankability and improve returns, often with the benefit of hedge accounting. Risk managers can consider a variety of strategies to secure market parameters early on, such as pre-hedges or contingent hedges to retain flexibility and/or protection ahead of final investment decision against adverse scenarios where the project would prove economically unsustainable.

New horizon for power and carbon market risks

Corporates are increasingly sourcing green power via Power Purchase Agreements (PPAs). As a result, treasurers need to manage new market risks associated with the mismatch between renewable production and their power baseload purchase needs. Decoupling power supply from its environmental attributes may be more efficient for economic and accounting considerations, with strategies such as Renewable Energy Credits (REC) sourcing providing additional flexibility. We anticipate this trend and can help our clients access environmental attributes as well as sourcing the right mix of country of origin and technology to align with their power consumption.

Anticipating what could go wrong

Grey swan: the Fed hiking again

Probability: 25%

Notwithstanding our base case views expressed to this point; For now, we think Fed rate hikes are possible but not likely. A soft-landing for the US economy would have to move out of reach and a more clearly restrictive Fed policy stance needed to secure this outcome.

Consumer inflation expectations are already high (Fig. 1). Fresh inflation upside, shortly after a big inflation shock in recent years, could put further upward pressure on inflation expectations.

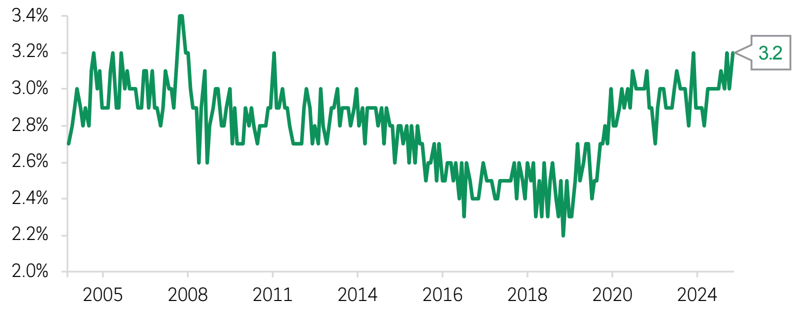
For the Fed to re-engage with rate hikes we think we'd need to see:the 3-month average of payrolls growth moving well above 100-150k together with declining unemployment (Fig. 2),inflation continuing to stick above the FOMC's 2% target, andthe new administration setting in motion a tariff and immigration plan that is likely to produce substantial inflation.

Looking at option pricing for the front-end US rates suggests that the market is already embedding a meaningful risk premium for a hike.

The Fed will be sensitive to any fresh inflation upside when inflation has only just dropped from a high level

(Fig. 1)

University of Michigan 5-10y inflation expectations

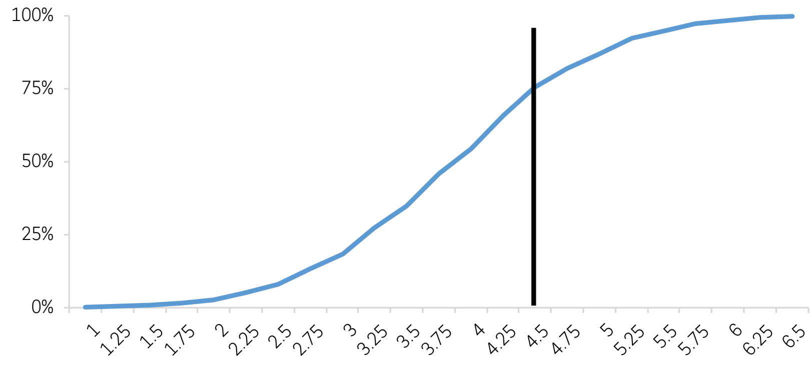


Sources: University of Michigan, Macrobond, BNP Paribas

Looking under the hood at option pricing in front-end US rates suggests the market is assigning around a 25% chance of a rate hike in 2025

(Fig. 2)

Probability of Fed Funds by end-2025



Sources: Bloomberg, BNP Paribas. Straight line represents the current level of the Fed Funds rate.

Asset Class implications	Base Case	Fed hiking again	
		Likely market impact	Risk management considerations
G10 FX	Further USD strength; EURUSD at 1 by Q4 '25	Larger USD strength on rate differential widening improving USD carry while risk-off benefits the USD through the safe haven channel	Consider increasing hedge ratios on long USD positions to benefit from added protection
Rates	US yields gradually recede as US growth momentum wanes	US yields shift up led by the front-end as safe haven demand pins the back-end relative to the front-end	Prepare for capital market uncertainty by adding time flexibility to (pre-) hedging strategies
EM FX	Differentiated performance: tariff sensitive currencies with weak fundamentals and rich valuations to underperform	Tighter financial conditions allow the USD to strengthen broadly against EM currencies	Consider increasing hedge ratios on long USD positions to benefit from added protection
Credit	High all-in yields lead to ongoing demand	Widening of credit spreads to reflect tighter financing conditions	Hedge against credit sentiment downturn for instance using iTraxx options before debt issuance
Equities	Elevated nominal growth supports earnings	Elevated valuations are challenged by higher rates	Explore convertible markets as an alternative financing option in a likely bear market

Source: BNP Paribas

It is likely that the potential for a Fed rate hike will be most impactful in Latin America given the importance of USD to these economies and the likelihood of its strengthening in response. Against this backdrop we see the main themes across the region as : Brazil facing debt sustainability issues into its 2026 elections and uncertainty around China's potential trade war with the US; Mexico tariff risk on top of judicial reform uncertainty; and Argentina's ongoing IMF negotiations and the potential for capital controls. With no shortage of tail risks in the region we believe out of the money options could be risk management tool. For those with a focus on Argentina we believe the much-improved implied yield as of late in NDFs may provide attractive hedging opportunities for those buying USD.

Conclusion

The global economy is expected to face significant challenges in 2025 due to policy risks and uncertainties, with US administration decisions likely to have a significant impact on the both business and market outlooks across the globe. Higher trade tariffs, tighter immigration policy, deregulation, and extension of 2017 tax cuts are expected to put upward pressure on US inflation, slow economic growth, and lead to a stronger USD. Central banks outside the US should overall ease policy settings, leading to monetary policy divergence further reinforcing the greenback. Emerging markets may face challenges due to trade tensions and tighter US financial conditions with those with credible monetary and fiscal policies better off.

To navigate these challenges, corporates may consider development of hedging strategies to 'control the controllables'. Building flexibility through adjusting hedge durations and ratios, diversifying hedging instruments to incorporate more options, and striking a balance between systematic and opportunistic approaches will be crucial in managing investment and cash flow uncertainty. Embracing automation should allow treasury teams to reduce the time between detection of exposure and risk mitigation on top of streamlining processes and strengthening internal controls.

M&A volumes are expected to pick up in 2025 as EMEA corporates look to tap resilient US growth while US buyers find EMEA valuations attractive. Tailored and dynamic rates and FX M&A hedging strategies between investment decision and closing will be essential in protecting deal parameters and value creation. We expect the deal-contingent technology to continue to dominate event-driven hedging.

Deglobalization and inflation are expected to remain significant challenges in 2025. Corporates should consider the need for realignment of input supply chains, triggering an adaptation of hedging programs. Treasurers may also consider development of corresponding risk management strategies in new local markets, including FX exposure in higher volatility markets, and consider long-term net investment hedging to protect investments from geopolitical risks and adverse FX moves. Additionally, US corporates with foreign investments will benefit from widening interest rate differentials, providing additional incentives to hedge foreign investments. With less scope for cost passthrough, treasurers may consider enhanced inflation and commodity hedging strategies to stave off margin compression from contractual or non-contractual price increases, including labor costs.

We expect the US administration's policy stance to create challenges for global decarbonization efforts, and to generate uncertainty on the economic sustainability of low-carbon transition projects. Corporates may look to adjust to this new paradigm with comprehensive but nimble hedging strategies.

While this remains less likely, the Fed increasing interest rates again in 2025 due to tariff-driven inflation would disrupt our forecasts. If this scenario unfolds, it could lead to a even stronger US dollar, tighter financial conditions, and a challenge to equity valuations.

> *In summary, policy unpredictability makes 2025 a challenging year for the global economy, with above-average volatility. Corporates may want to be proactive in anticipating the impact of these shifts on their financial risk profile and designing strategies to shield their business from this increased uncertainty.*

Authors

Bradley Anderson | Joachim Bokobza | Marcelo Costa | Hugo Delaborde | Fabrice Famery | Xavier Gallant | Dennis Jose | Dickson Law | Jacques Levet | Ashley Parker | Guillaume Picot | Geraud Redor | Scott Sinawi | Luigi Speranza

Please contact your BNP Paribas representative for additional information

Disclaimer

Legal Notice: This document/communication may contain "Research" as defined under MiFID II unbundling rules; any such Research is intended either (i) for those firms who are in scope of the MiFID II unbundling rules and have signed up to a BNP Paribas Global Markets Research package, or (ii) for firms that are out of scope of the MiFID II unbundling rules and therefore are not required to pay for Research under MiFID II. Please note that it is your firm's responsibility to ensure that you do not view or use any Research in this document if your firm has not signed up to a BNP Paribas Global Markets Research package, unless your firm is out of scope of the MiFID II unbundling rules. This document may also be regarded as a minor non-monetary benefit (MNMB) and it is your firm's responsibility to consider its own regulatory obligations in relation to inducements and accepting MNMBs.

This document is CONFIDENTIAL AND FOR DISCUSSION PURPOSES ONLY; it constitutes a marketing communication and has been prepared by a Sales and Marketing function within BNP Paribas and/or its subsidiaries or affiliates (collectively "we" or "BNP Paribas"). As a confidential document it is submitted to selected recipients only and it may not be made available (in whole or in part), reproduced, delivered or transmitted to any other person (other than to your professional advisers) without BNP Paribas' written consent. Neither the information nor any opinion contained in this material constitutes a recommendation, solicitation or offer by BNP Paribas or its affiliates to buy or sell any security, futures contract, options contract, derivative instrument, or financial instrument, nor shall it be deemed to provide investment, tax, legal, accounting or other advice and BNP Paribas has no fiduciary duty towards its recipients. To the extent that any transaction is subsequently entered into between the recipient and BNP Paribas, such transaction will be entered into upon such terms as may be agreed by the parties in the relevant documentation.

The information contained in this document has been obtained from sources believed to be reliable, but there is no guarantee of the accuracy, completeness or suitability for any particular purpose of such information nor that such information has been independently verified by BNP Paribas or by any person. None of BNP Paribas, its members, directors, officers, agents or employees accepts any responsibility or liability whatsoever or makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this document, or any opinions based thereon. This material should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. You should consult your own advisors about any products or services described herein in order to evaluate the merits, suitability, and financial, legal, regulatory, accounting and tax issues raised by any investment and should not rely on BNP Paribas or its affiliates for this. Additional information may be provided on request, at our discretion. This material is only intended to generate discussions regarding particular instruments and investments and is subject to change, or may be discontinued, without notice. Any scenarios, assumptions, historical or simulated performances, indicative prices or examples of potential transactions or returns are included for illustrative purposes only. Investors may get back less than they invested. BNP Paribas gives no assurance that any favorable scenarios described are likely to happen, that it is possible to trade on the terms described herein or that any potential returns illustrated can be achieved. This document is current as at the date of its production and BNP Paribas is under no obligation to update or keep current the information herein. Certain strategies and/or potential transactions discussed in this document may involve the use of derivatives which may be complex in nature and may give rise to substantial risks, including the risk of total or partial loss of any investment or losses without limitation and which should only be undertaken by those with the requisite knowledge and experience. BNP Paribas makes no representation and gives no warranty as to the results to be obtained from any investment, strategy or transaction, or as to whether any strategy, security or transaction described herein may be suitable for recipients' financial needs, circumstances or requirements. Recipients must make their own assessment of strategies, securities and/or potential transactions detailed herein, using such professional advisors as they deem appropriate. BNP Paribas accepts no liability for any direct or consequential losses arising from any action taken in connection with or reliance on the information contained in this document even where advised of the possibility of such losses.

As an investment bank with a wide range of activities, BNP Paribas may face conflicts of interest and you should be aware that BNP Paribas and/or any of its affiliates may be long or short, for their own account or as agent, in investments, transactions or strategies referred to in this document or related products before the material is published to clients and that it may engage in transactions in a manner inconsistent with the views expressed in this document, either for their own account or for the account of their clients. Additionally, BNP Paribas may have acted as an investment banker or may have provided significant advice or investment services to companies or in relation to investments mentioned in this document. The information in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction where (a) the distribution or use of such information would be contrary to law or regulations, or (b) BNP Paribas or a BNP Paribas affiliate would become subject to new or additional legal or regulatory requirements. Persons in possession of this document should inform themselves about possible legal restrictions and observe them accordingly. In no circumstances shall BNP Paribas or its affiliates be obliged to disclose any information that it has received on a confidential basis or to disclose the existence thereof. If you have a contractual relationship with a BNP Paribas affiliate that extends to products and services referenced in this material, the communications made hereby are, and shall be deemed made, as the context may require, by such entity.

All terms, pricing, estimates and opinions included in this document constitute the judgement of BNP Paribas and its affiliates as of the date of the document and may be subject to change without notice. This type of information has inherent limitations which recipients must consider carefully. While the information has been prepared in good faith in accordance with BNP Paribas' or its affiliates' own internal models and other relevant sources, an analysis based on different models or assumptions may yield different results.

This document is intended only for those defined under U.S. securities laws as "institutional Investors" and/or "major institutional investors". Securities transactions with BNP Paribas that result from the provision of this document will be effected by or through BNP Paribas Securities Corp., a U.S. registered broker-dealer and member of FINRA, the New York Stock Exchange and other principal exchanges.

Securities products offered by BNP Paribas Securities Corp. are not FDIC insured, are not bank deposits nor bank guaranteed, and are subject to investment risk, including possible loss of the principal invested.

Canada: BNP Paribas Securities Corp. (the "Company") relies on the International Dealer Exemption pursuant to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations in Canada. To the extent that you have an account with the Company or deal with representatives of the Company, please note that:

(i) the Company is not registered in Canada to trade in securities;

(ii) the Company's jurisdiction of residence is the United States of America;

(iii) all or substantially all of the assets of the Company may be situated outside of Canada;

(iv) there may be difficulty enforcing legal rights against the Company because of the above; and

(v) the names and addresses of the Company's agents for service of process in the local jurisdictions may be obtained upon request.

THIS PRESENTATION IS CONFIDENTIAL AND IS BEING SUBMITTED TO SELECTED RECIPIENTS ONLY WHO QUALIFY, AS REQUIRED UNDER APPLICABLE LAW IN CANADA, as CANADIAN PERMITTED CLIENTS (as defined in Section 1.1 of National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations, "NI 31-103") OR AS QUALIFIED PARTIES (as defined in the Alberta Securities Commission Blanket Order 91-507, or its successive blanket order or its equivalent as applicable to another Canadian province in which the recipient is resident) OR AS ACCREDITED INVESTORS (as defined in Section 1.1 of National Instrument 45-106 Prospectus and Registration Exemptions, or, if resident in Ontario, Section 73.3(1) of the Securities Act (Ontario)) OR AS ACCREDITED COUNTERPARTIES (if resident in Quebec as defined in Section 3 of the Quebec Derivatives Act, chapter I-14.01 or its equivalent as applicable to another Canadian province in which the recipient is resident) - all the above National instruments, Blanket Order and Acts specified in this paragraph collectively, the "Specific Canadian Texts".

Financial instruments of the type described herein may involve a high degree of risk and their value may be highly volatile. Such risks may include, without limitation: (i) variations in interest rates, exchange rates, correlation, prices or levels of securities, commodities, funds and/or indices, indicators of creditworthiness or perceived creditworthiness of one or more underlying entities; (ii) default or insolvency of one or more underlying entities; (iii) adverse or unanticipated market events or developments, political developments or adverse corporate events involving an underlying security or entity; (iv) risk of illiquidity; (v) sovereign risk; and (vi) legal risk. In addition, where a transaction involves leverage, it must be recognized that whilst leverage presents opportunities to increase profit, it also has the effect of potentially increasing losses and doing so in a relatively short period of time. Such losses may significantly diminish the performance of the transaction or result in loss for you. You may be required to post margin or collateral at levels consistent with the internal policies of BNP Paribas. The risk of loss in trading derivatives can be substantial and, accordingly, derivatives are not suitable for every person.

Any offer or sale of securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgement upon these materials, the information contained herein, or the merits of any securities described herein, if any.

This particular section applies to recipients who are located within or otherwise represent or are connected to and doing business within Canada. In the event of a direct conflict or inconsistency between the presentation and this section, this section will prevail to supplement the above as it applies to Canada, and shall be interpreted to supplement and not restrict the application of the above to the fullest extent possible. BNP Paribas is incorporated in France with limited liability (registered office: 16 boulevard des Italiens, 75009 Paris, France, 662 042 449 RCS Paris) and is established in various jurisdictions. It operates in Canada as a Schedule III Bank (under the Bank Act (Canada)), and equally under an International Dealer Exemption as applicable in various Canadian provinces. In Canada, it has a Quebec office located at 2001, Robert-Bourassa Blvd, Montreal, QC, H3A 2A6, and an Ontario office located at 155 Wellington Street West, Suite 3110, Toronto, ON, M5V 3H1. For recipients located in Quebec, upon receipt of this presentation, each recipient hereby confirms that it has expressly requested that it be drawn up in the English language only. Pour les résidents du Québec, par la réception de cette présentation, chaque destinataire confirme par les présentes qu'il a expressément exigé que celle-ci soit rédigée en anglais seulement.

Mexico: BNP Paribas and its US affiliates are not financial institutions licensed in Mexico. Consequently, the marketing and offering of financial products may be limited by applicable International Treaties on transborder financial services provisions and Mexican applicable financial laws. Therefore, any information regarding financial products will be provided upon request of the interested party, and financial services will be rendered out of Mexican territory only.

Brazil: Banco BNP Paribas Brasil SA is incorporated in Brazil as a multiple bank and authorized by the Central Bank of Brazil and the Securities and Exchange Commission to act as financial institution, administrator and custodian of investment funds. Notwithstanding the caution in obtaining and administering the information presented herein, BNP Paribas shall not be responsible for the accidental publication of incorrect information or for investment advice based on the information contained in this document, which may be modified without prior notice. Banco BNP Paribas Brasil SA and BNP Paribas SA do not provide legal, tax or accounting advice. The information contained in this document is for informational purposes only and the distributor and its customers should seek their own legal, accounting and tax advisors to evaluate the actual impacts of any potential structures. Banco BNP Paribas Brasil SA will not be responsible for any loss caused by the use of any information contained herein. This document is being communicated by Banco BNP Paribas Brasil S / A, Av. Pres. Juscelino Kubitscheck, 1909 São Paulo - SP, CEP 04543-906; Tel.: +55 11 3841 3100 (www.bnpparibas.com.br). All rights reserved. Ombudsman's Office of BNP Paribas Brazil - contacts: 0800 - 771 - 5999, ouvidoria@br.bnpparibas.com.