2025

CORPORATE RISK MANAGEMENT OUTLOOK

STEERING THROUGH GLOBAL SHIFTS AND POLICY RISKS

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BNP PARIBAS

The bank for a changing world

Introduction

The macroeconomic and markets environment has rarely been as unpredictable as it is today. Geopolitical and trade tensions are taking centre stage again, and the new US administration's policy stance is fuelling uncertainty and creating ripple effects across sectors and markets.

Against a backdrop of large-scale tariff threats, strain on multilateral cooperation frameworks (such as NATO and the Paris Agreement) and tightening of immigration laws, combined with deregulation in certain sectors, corporate decision-makers are facing significant challenges in navigating the risks and opportunities that lie ahead. We expect markets volatility to be on the rise with even short-term moves having the potential to significantly impact investment decisions or business profitability.

In this document, we aim to provide corporate leaders with insights to shape their risk management strategies and help them make more informed decisions. Our objective is to equip them with a deeper understanding of the key drivers of uncertainty and the potential implications for their businesses to help them balance a more uncertain business risk profile with a more stable financial risk profile through hedging.

The document provides 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 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, challenges of deglobalisation, impact of inflation on corporate margins and competitiveness, and challenges of decarbonisation amid divergence in climate policies worldwide. Finally, we highlight potential scenarios that could derail our base case and offer guidance on how to prepare for these risks.

Throughout the document, we emphasise the importance of flexibility and agility in navigating the uncertain environment. By providing expert analysis and practical guidance, this document aims to equip corporate decision makers with the insight they need to strengthen financial resilience and drive business growth in a rapidly changing world.

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.

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

Trade policy uncertainty has returned with a vengeance

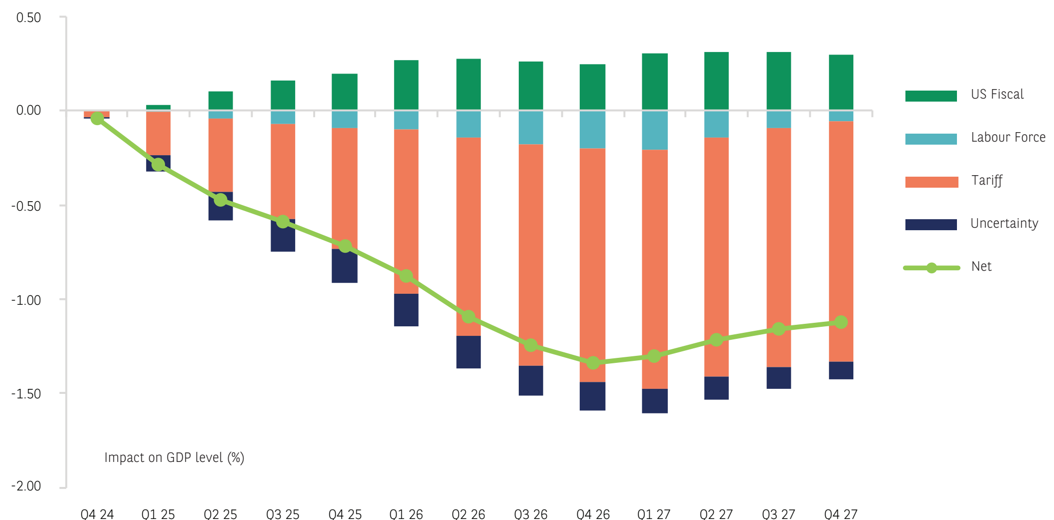
Data is smoothed quarterly.
Sources: Economic Policy Uncertainty, Macrobond, BNP Paribas

This combination of policies is likely to raise US inflation (to about 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 sees the peak of inflation 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. Deglobalisation, along with the continued disinflationary impulse from China, means inflation should remain at 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 European Central Bank), suggesting central bank divergence and stronger dollar will be key themes in 2025.

Looming tariff risks and tighter US financial conditions create a challenging backdrop for Emerging Markets (EM), though they appear better equipped to weather the storm than in 2008. Most external imbalances are narrower today compared with those during the global financial crisis, reducing balance of payments crisis risks. Further, 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 do not have their monetary and fiscal policy credibility in order (large parts of Latam), policy trade-offs (growth, inflation and FX performance) will be much trickier to navigate given higher global risk premia.

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, 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, 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 and 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 difficult to raise revenue through increases in 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 the USD and volatility elevated:

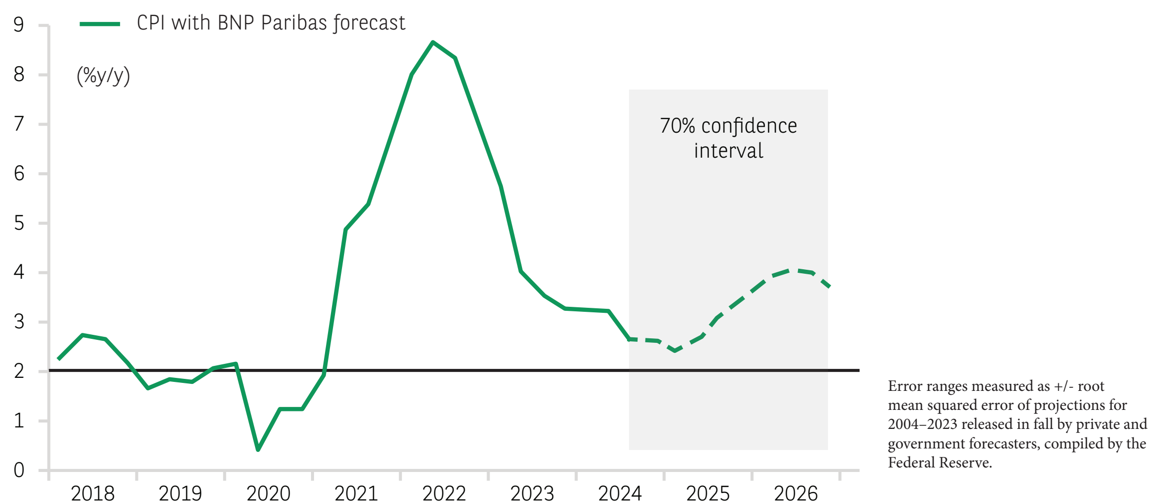
We expect the USD to appreciate further if US trade and monetary policies are in line with our assumptions. USD strength, in our view, should be most pronounced against currencies with central banks that are willing to tolerate currency weakness to stimulate growth and currencies most impacted by tariffs (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 year-end.

This environment of trade uncertainty, monetary policy divergence and strong USD should also see FX volatility rise. Importantly, markets may swing sharply on headlines, which can be dovish or hawkish relative to expectations, so we also expect vol-of-vol to increase.

Rate cuts 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 long 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 US inflation



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 among contrasting factors. Russian and Iranian sanctions, loose US energy production regulations, tariffs on China and elsewhere, 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, 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 USD85/bbl is sustainably reached), less sanctions on Russia (after a potential peace deal with Ukraine), a ramp up in Iranian sanctions, and further tariff implementation should see prices settle around USD75/bbl by the end of 2025, in our view.

We expect upside risks to power prices to be skewed to Q1, driven by concerns over the gas balance and geopolitical risks. However, high renewable capacity buildout will ease upside price pressures from Q2. Power in France will likely get a boost from nuclear generation, widening the spread to German power.

Tariff headwinds to equities may be counterbalanced by increasing policy support:

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

Credit spreads to remain rangebound in 2025:

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

Diverging energy policies among the US, Europe, and APAC:

The global energy landscape is poised for significant changes, driven by diverging policy approaches among 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 likely 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 200GW to be added this year, compared to 15–20GW in the US and 50–60GW in the EU.

The policy changes introduced by President Trump will also have a significant impact on the US energy sector. Some of the key changes we envisage include:

- elimination of credits for new EV purchases;
- new tax credits for lithium production and nuclear power development;
- removal of waivers limiting ICE auto sales in states that adopted California’s Advanced Clean Cars II program;
- cessation of Department of Energy funding for solar and wind projects (though nuclear and biofuels funding may continue);
- continued infrastructure loans to develop grid capacity (though probably at the municipal level);
- loans for EV production appear unlikely, though loans for mineral projects and biofuels may continue.

Adapting to changes in trade policies

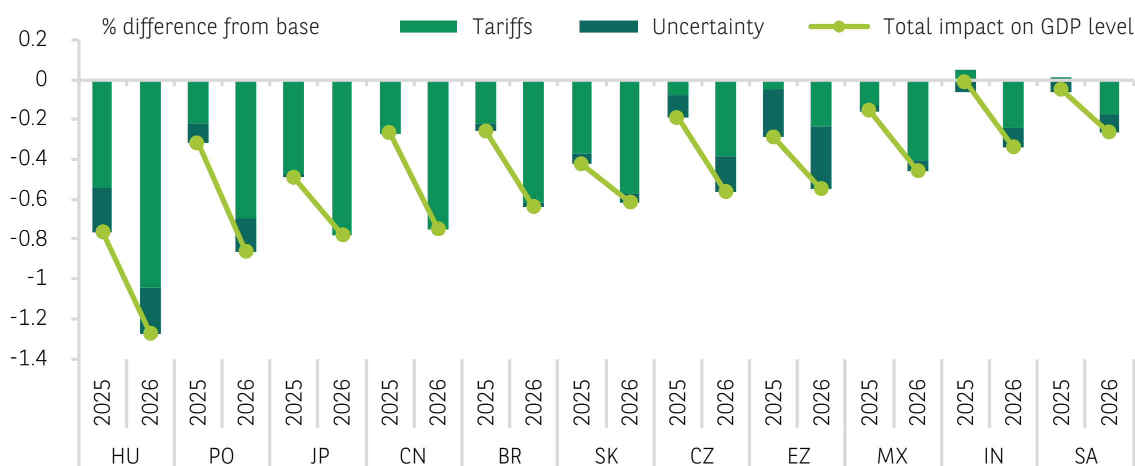
We expect the US trade policy shift to be felt across the world, from both an economic and geopolitical perspective, as President Trump has shown a clear sensitivity to trading partners with a significant trade surplus versus the US.

Eastern European and Asian countries most impacted by tariffs:

We think higher US tariffs could lower 2026 GDP by 0.7% on average for developed markets and 0.6% for Emerging Markets 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 escalating 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 an increase in defence spending and further EU integration. In China, we expect large fiscal measures from the March 2025 National People's Congress and further rate cuts by the People's Bank of China.

US tariffs to slow global growth with highly integrated economies suffering the most



Source: BNP Paribas

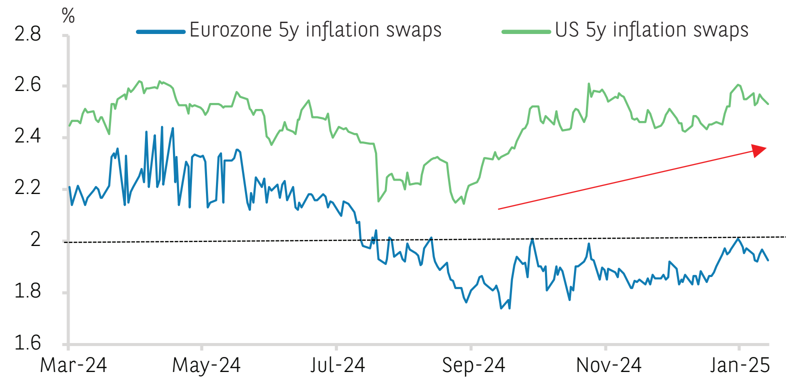
US consumers and exporters to be impacted:

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

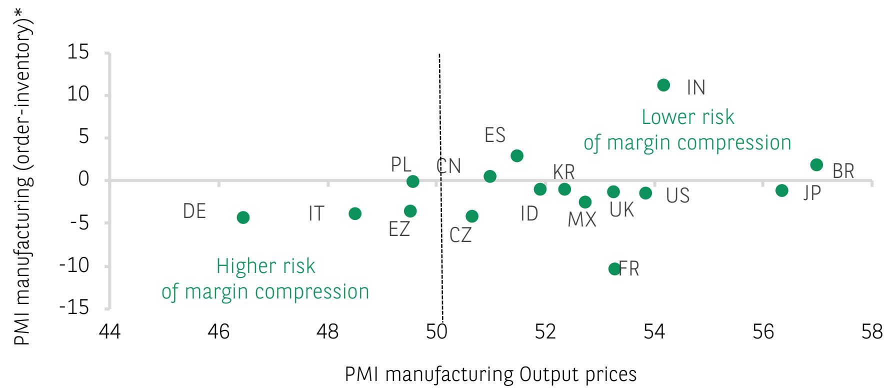
We consider the MXN, CAD, CNH, and EUR and its proxies (Central and Eastern Europe) to be particularly vulnerable to tariffs.

In contrast, we do not expect US retailer 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. There also seems to be some room for narrowing foreign exporter margins, particularly in countries and regions where there is considerable excess capacity as is the case in many eurozone countries already dealing with low orders relative to inventory. This would 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

Some industries are more exposed to US tariffs or to retaliatory measures by trade partners than others, for instance, due to their political sensitivity or reliance on cross-border value chains. BNP Paribas Exane analysis shows that there are more companies exposed to shifts in tariff policy within the autos, beverages, luxury, tech hardware, US retail, med-tech and US utilities sectors. The impact on individual companies will, however, vary within sectors, depending on export reliance, manufacturing footprint, production flexibility, and ability to pass on price increases to customers relative to their industry peers.

Staying ahead of global shifts and policy uncertainty

We outline below our take on the key themes we believe will drive the risk management agenda for corporate treasurers in 2025 as they strive to deliver on their priorities and strengthen financial resilience against an uncertain backdrop.

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 in H2 2024. 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 dollars 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.

Meeting the requirement to invest, while 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 by developing risk-based 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:

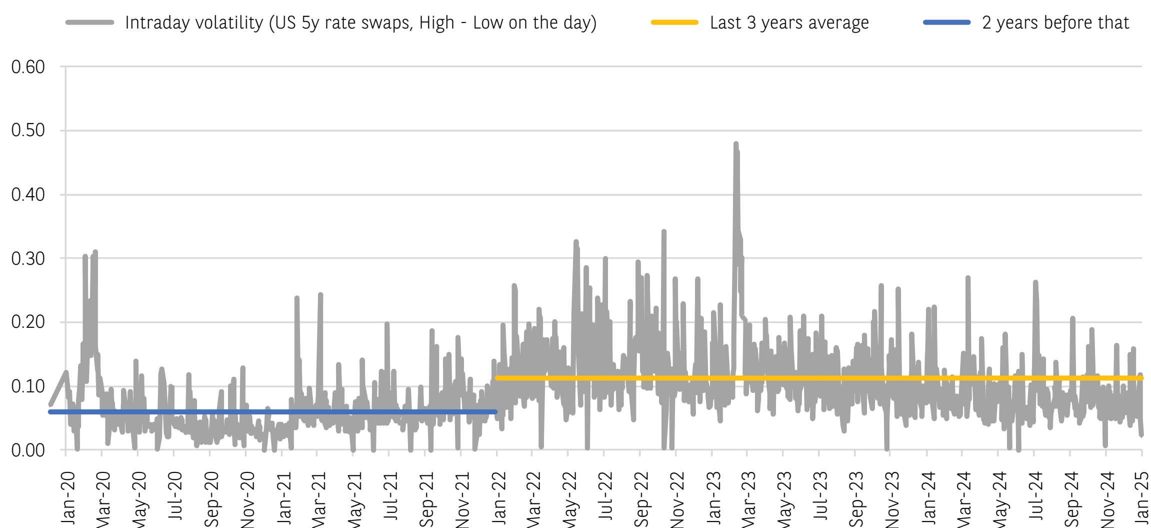
Many corporates still benefit from attractive fixed rate financing costs locked in 2020 and 2021. However, the higher rates over the last two years have significantly increased the cost of floating-rate debt. This effect will compound once historically attractive fixed rate debt starts to roll off. In 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 short-term volatility will often show a different picture with a higher interest cost at risk.

Upcoming investments – M&A or capital expenditure – increase the forward-looking interest rate risk on the whole debt portfolio. A sharp move up in interest cost on future financing requirements, combined with other policy or trade-related uncertainty, may call into question the shareholder value creation potential of certain investments and require strategy adjustments.

Increase hedge ratios and extend hedging of future interest rate risk:

2025 began with a sharp correction, as markets priced in a Fed pause earlier than previously 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. A risk-based strategy could include:

- increasing hedging ratios, particularly for 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
- making 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.

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

With the prospect of geopolitical instability and unpredictable policy, short-term interest rate and FX volatility is likely to remain high for the foreseeable future. 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 will help issuers ensure funding activity meets approved criteria at pricing. While many will 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.

Look beyond traditional strategies and tools to mitigate risks:

Traditional forward and option-based hedging instruments are effective tools for reducing exposure to liquid components of financing costs. However, they may not always be the most efficient. There are often innovative – and sometimes simpler – ways of managing these risks, ranging from matching currencies and forward-start debt instruments (e.g. private placements with institutional investors can offer fixed-rate funding with several months' delayed drawdown) to partnering with private capital investors. Private capital enters 2025 with USD2 trillion[1] of assets to invest and stand ready to allocate them to megatrend projects with corporates. The funding can be structured in various ways, including through JVs or asset monetisation projects, to help mitigate investment risk and raise equity-like financing.

[1] MSCI: Data as of the Q3 2024 update of the MSCI Private Capital Manager Universe; capitalisations exclude funds of funds.

Cash flow uncertainty

Mitigating uncertainty through flexibility:

The policy uncertainties and geopolitical tensions highlighted in previous sections may also substantially affect supply chains and realised 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.

Corporates are therefore turning to 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 foresee 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 solutions, such as collars, to reduce carry costs and increase hedging ratios to lock in favourable USD levels.
- USD buyers might leverage high carry to enter participating strategies, benefitting from potential USD depreciation. Relatively high volatility levels could also incentivise corporates to engage in outperformance strategies and optimise existing in-the-money hedges.

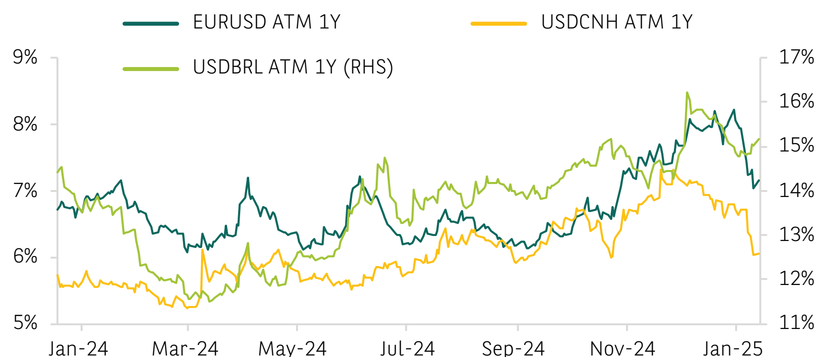
Emerging markets – a case-by-case approach:

The strong USD and elevated FX volatility pose specific challenges to corporates looking to hedge 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 short-dated hedges to gain flexibility, while increasing hedging ratios to address potential EM currency depreciation.
- extending hedge maturities for exposures to selected geographies, such as China, where the carry benefit for RMB sellers against EUR 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 optimise 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.

The US election has ushered in a new FX volatility paradigm



Data as at 13 Jan. 2025
Source: BNP Paribas.

Mitigating cash flow uncertainty through automation:

In today's increasingly complex and fast-paced market environment, digitalisation and automation have emerged as essential tools for corporate treasurers. Automation is a key enabler to streamline processes and 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.

BNP Paribas's Kantox suite of solutions demonstrates that digitalisation can enable treasurers to gain real-time visibility into their FX exposure through API connectivity, which can seamlessly integrate with firm commitments, forecasted transactions 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 under- or over-hedging risks.

Corporate treasurers will continue to embrace further automation to make more informed decisions, respond more effectively to market fluctuations, and ultimately better navigate the challenges of cash flow uncertainty.

Optimising excess cash – a tailored approach:

The uncertainty surrounding the 2025 cash flow requirements, including working capital and investment initiatives, is likely to incentivise corporate treasurers to focus on short-term investments to manage cash balances. Amid a global decline in interest rates, corporates can capitalise on dual-currency deposits to significantly enhance yields over periods of one to six 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 for treasurers to make the most of their cash holdings, even in a low-yield environment.

Accelerating growth through M&A

2024 was a robust year for mergers and acquisitions, 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, large deals (those above USD 2 billion) increased by 20% year-on-year, driven by corporates, which accounted for nine of the top 10 largest deals of the year. EMEA to Americas M&A volume more than doubled compared to 2023.

M&A activity poised to pick up in 2025:

We expect M&A volumes to accelerate further in 2025, driven by several key factors:

- A supportive regulatory stance and low interest-rate environment, although the pace of central bank cuts remains uncertain, particularly in the US.
- New incentives for corporates to increase their exposure to higher-growth regions, such as the US and India, through acquisitions in light of global growth divergences, building on 2024 M&A trends.
- The valuation divergence between the US and EMEA, combined with a strong USD, which may encourage US buyers to pursue EMEA targets, e.g., through take-private transactions, and encourage European corporates to add a listing venue in the US potentially through a share merger.
- 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 capitalise 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 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 continued importance of Environmental, Social, and Governance (ESG) considerations, with many corporates seeking acquisitions that will support their net-zero targets.
- Financial sponsor activity will remain high 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 likely volatility in capital markets. These risks include:

- market risks, with the outlook for FX, inflation, and interest rates remaining uncertain and market volatility probably remaining 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 deglobalisation 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 USD 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 early in transformative acquisitions. Boards and investment committees will want to ensure that the forecasted returns of their acquisitions or divestments are immunised against adverse market moves at an early stage. Waiting for the successful closing of M&A transactions is no longer a viable alternative, given an extended timeline for completion compared to previous years, with many large transactions taking over a year to close after initial announcement.

With corporate treasurers involved early in M&A discussions, we observe an increased integration of the capital structure discussion and risk management process. This includes answering questions around funding the deal in the currency of the target (as currency hedge for the investment) versus financing in the functional currency of the company; the optimal group internal structures (intragroup equity or debt financing and the resulting hedging needs); as well as the economic currency and interest rates of the target.

Corporates are turning to more bespoke and dynamic 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 more favourable market entry points 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 clients opting for vanilla hedging solutions for their acquisitions, as they perceive limited uncertainty regarding deal closing, but also incorporate 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 inexpensive due to the relatively low volatility in recent years.

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

While options proved effective in 2024 due to low volatilities, especially in FX, they are likely to become more expensive in 2025. As a result, clients may prefer lower-cost solutions 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 favourable market moves in exchange for a less favourable strike in the corresponding forward or swap.

We expect deal-contingent and participating hedges to spark particular interest among European clients acquiring assets in high-yielding currencies or even the USD and GBP, as the carry benefit will cover part (if not all) of the embedded option cost. Meanwhile, European clients selling US 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.

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

Deglobalisation

The rise of protectionism is reflected in the sharp increase in trade restrictions worldwide, jumping from about 1000 in 2019 to 3000 in 2023 according to the IMF, and is likely to further rise under the second Trump administration. The impact for corporates is twofold, creating dilemma between margin compression and market share loss to less-affected rivals, and need for realignment of input supply chain.

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 the US and China.

US–China trade war 2.0?

Trade tensions between the US and China create a highly uncertain economic environment for corporates and raise 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 the outlook for China becomes more uncertain, corporates are looking to re-route exports or 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 plus side, Chinese companies have built production capacity overseas, which could enable them to bypass potential tariffs. On the flip side, the EU and emerging markets have also taken actions on Chinese products due to growing competition anxiety and supply-chain risks.

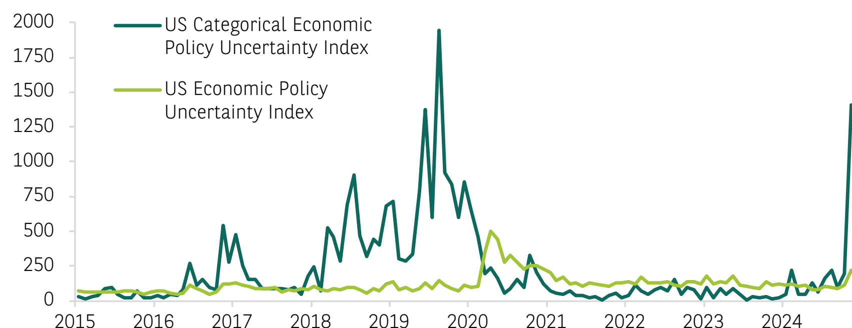
Two specific sectors are particularly at risk.

- Semiconductors: Major Asian economies, such as China, South Korea, Japan, and Taiwan, continue to dominate the sector and have seen a pickup 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 on chips manufactured by Micron and export restrictions on germanium and gallium, two key minerals for semiconductor manufacturing.
- Energy transition: 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 four times in 2024, while EU increased tariffs on Chinese EVs two to three 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 if the Trump administration permits it.

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 favourable currency moves to lock in lower costs. Corporates may, for instance, consider zero-cost risk reversal strategies to hedge cash flows against tail risk events given the significant geopolitical 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 likely to have abundant onshore liquidity due to low interest rates and accommodative bank lending.

On the issuer front, this will likely lead to financing needs being switched to onshore bank loans and bond issuance, and offshore issuance may focus solely on refinancing or share buyback needs. On the investor front, onshore funds will continue to seek cross-border opportunities to enhance returns. Overall, the level of credit events may 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, along with other solutions depending on the geography and the nature of business.

Inflation is here to stay

High inflation in recent years, partly caused by supply chain disruptions after the Covid-19 pandemic and exacerbated by the war in Ukraine, has had far-reaching impact on corporates.

Inflation risks are more acutely felt by corporates:

Inflation led to increased costs for most businesses, particularly those with high energy and raw material inputs. While many corporates were able to pass these costs to consumers through higher prices, and some even widened margins, sectors with less pricing power, such as hospitality, proved more vulnerable, especially in the US. In Europe, manufacturing, transportation, and construction, among others, were particularly affected by rising energy costs and supply chain disruptions.

This new reality triggered a heightened focus on inflation from corporate treasuries up to the board room. Controlling teams have spent time understanding their inflation and commodity exposures, both contractual and implicit, while investors are now expecting more active communication on the impact of inflation on the bottom line.

Navigating inflation risks – a new reality for corporates:

With less fiscal headroom in some regions, such as Europe, corporates facing increased competition at global level, and consumers dealing with cost-of-living constraints, pricing power from here on is likely to be more limited, reducing in turn the ability of corporates to mitigate potential cost increases.

Moreover, while 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 versus USD,
- uncertainty over the pace of rates hikes/cuts,
- tight labour markets (US) and sticky service inflation,
- end of government support for household bills,
- de-carbonisation and re-designing of global supply chains, and
- geopolitical tensions and their impact on energy prices.

Hedging against uncertainty – the future of inflation management:

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

Indeed, when deciding to hedge inflation, we expect corporates to focus first on contractual inflation and commodity exposures, as they are easier to identify and hedge (if index is liquid) – while often achieving hedge accounting. In this regard, the most hedged exposures have been related to inflation or commodity-linked capex and Power Purchase Agreements (PPAs), as suppliers and procurement are increasingly agreeing to embed inflation or commodity price protection into long-dated contracts: suppliers look to protect their margins against cost increases on long-dated agreements, while procurement functions are now more aware of that need. We expect treasuries and procurement to work hand in hand to push for linking contractual formulas to liquid and broad-based indices that can be risk managed.

We expect an uptick in macro inflation hedge discussions with a particular focus on salary inflation across Europe to continue.

Finally, high uncertainty on future inflation paths will lead corporates to consider option-based hedges, such as caps, floors, or a combination thereof (liquidity permitting), to protect themselves against certain scenarios while allowing for some participation should markets ease in their favour, in our view.

Decarbonisation

The Trump administration’s policy stance creates significant challenges for global decarbonisation efforts and is likely to lead to a divergence in climate policies worldwide. The 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) will 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 re-deploy capital in countries with strong climate policies, such as China or the EU.

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

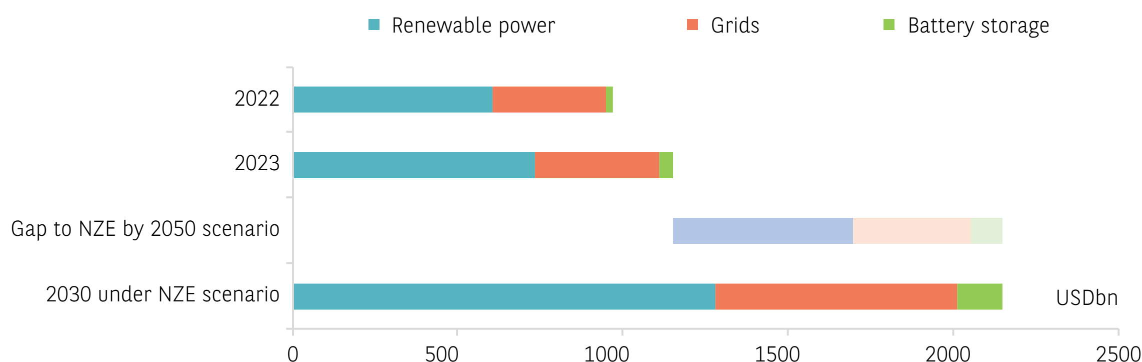
EU corporates may also face reduced access to subsidies in the US market, while fossil fuel energy sources are re-prioritised. As a result, we anticipate increased demand for working capital solutions related to energy transition and security of supply.

Unexpected policy shifts may also lead to price fluctuations and uncertainty among market participants, with high market volatility creating further risks to the energy transition and destabilising supply chains. In this environment, we expect corporates to seek enhanced commodity hedging solutions, focusing on metals (such as those used in batteries and for renewable energy production and storage) and energy markets. To mitigate the impact or rising volatility, corporates using exchange-listed futures show continued interest in reducing their exposure to margin calls, for instance through liquidity swaps, bank-issued collateral substitution or margin facility solutions.

The ongoing electrification megatrend will require substantial capital expenditures for grids, renewable energy sources, and energy storage, especially in Europe. We are prepared to support our clients with strategic long-term hedging programmes in raw materials and innovative solutions, 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 installed globally by 2030

Investments in renewables, grids and battery storage in the Net Zero Emissions by 2050 Scenario, 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 to not only FX and rates but also inflation and commodities at early stages of project developments. We will continue to assist project sponsors in analysing 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 solutions 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 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 solutions such as power guarantees of origin providing additional flexibility. We anticipate this trend to continue and can help our clients access environmental attributes as well as source the right mix of country of origin and technology to align with their power consumption.

In contrast, the global carbon market outlook appears more favourable, with expanded compliance perimeters, increased demand for credits, improved interconnection between carbon markets, and standardised trading principles under Article 6.4 of the Paris Agreement as agreed at COP29. Brazil will host the UN climate talks (COP30) and has the potential to support 30.5 billion nature-based carbon credits through 2050. The Science Based Targets initiative (SBTi) may allow more carbon credits to be used to achieve net-zero goals, driving increased demand for carbon credits and carbon removal credits, which are likely to double in 2025. Carbon border tariffs will rise, with the EU's Carbon Border Adjustment Mechanism (CBAM) phasing in from January 2026, and other countries are likely to follow suit, in our view. Carbon prices will probably increase in 2025 across most compliance schemes due to the integration of new sectors, reduction of free allowances, and regulatory reforms.

We see continued strong demand from corporates looking to understand market developments and source the certificates that would best suit their needs, along with rising demand for hedging solutions on less liquid underlyings, such as biofuels and Sustainable Aviation Fuels (SAF).

Anticipating “what could go wrong”

Grey swan: The Fed hiking rates again

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 clearly restrictive Fed policy stance is needed to secure this outcome.

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

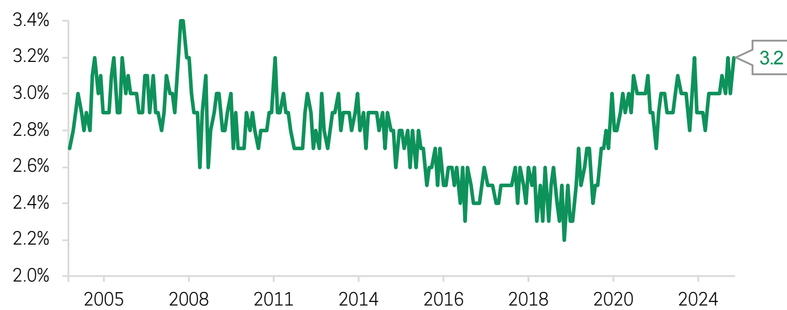
For the Fed to re-engage with rate hikes, we think we'd need to see:

- the three-month average of payrolls growth moving well above 100-150k, along with declining unemployment,
- inflation continuing to stick above the FOMC's 2% target, and
- the new administration setting in motion a tariff and immigration plan that is likely to produce substantial inflation.

Option prices for the front-end US rates suggest 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 just dropped from a high level

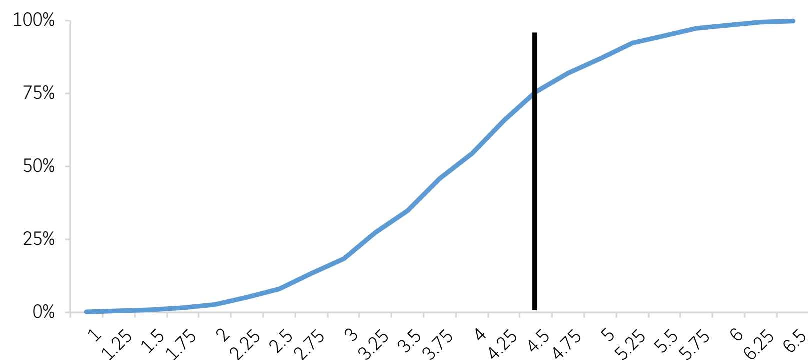
University of Michigan 5-10y inflation expectations



Sources: University of Michigan, Macrobond, BNP Paribas

Option prices in front-end US rates suggest the market is assigning around a 25% chance of a rate hike in 2025

Probability of Fed Funds by end-2025 (at the time of writting)



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

Asset class implications	Base case	Fed hiking rates again	
		Likely market impact	Risk management considerations
G10 FX	Further USD strength; EURUSD at 1 by Q4 2025.	Large USD strength on rate differential widening improves USD carry, while risk-off benefits the USD through the 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 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	Tight 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	Credit spreads widen to reflect tight financing conditions	Hedge against credit sentiment downturn, for instance, using iTraxx options before debt issuance
Equities	High nominal growth supports earnings	Elevated valuations are challenged by high rates	Explore convertible markets as an alternative financing option in a likely bear market

Source: BNP Paribas

The global economy is likely to face significant challenges in 2025 due to policy risks and uncertainties, with US administration decisions having a significant impact on both business and market outlooks across the globe.

We expect high trade tariffs, tight immigration policy, deregulation, and tax cuts to raise US inflation, slow economic growth, and lead to a strong dollar. Central banks outside the US should overall ease their policies, leading to monetary policy divergence and further reinforcing the strength of the greenback. Emerging markets may face headwinds due to trade tensions and tight US financial conditions.

To navigate these challenges, corporates may consider development of risk-based 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 will allow treasury teams to reduce the time between detection of exposure and risk mitigation on top of streamlining processes and strengthening internal controls.

We expect M&A volumes 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 economics and value creation, in our view. We anticipate that the deal contingent technology will continue dominating event-driven hedging.

Deglobalisation and inflation are likely to remain significant concerns in 2025. Corporates should consider the need for realignment of input supply chains, triggering adjustments in hedging programs. Treasurers may also consider development of corresponding risk management strategies in new local markets, including FX exposure in volatile markets, and consider long-term net investment hedging to protect investments from geopolitical risks and adverse FX moves. With less scope for cost pass-through, treasurers may consider enhanced inflation and commodity hedging strategies to protect against margin compression from contractual or non-contractual price increases, including labour costs.

We expect the US administration's policy stance to create challenges for global decarbonisation 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 unlikely the Fed increasing interest rates again in 2025 due to tariff-driven inflation would disrupt our forecasts and create a tougher environment for corporate treasurers. This scenario would strengthen the US dollar, tighten financial conditions, and challenge equity valuations.

Overall, 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 global shifts on their financial risk profile and design strategies to shield their businesses from increased uncertainty.

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