2025 CORPORATE RISK MANAGEMENT OUTLOOK

STEERING THROUGH GLOBAL SHIFTS AND POLICY RISKS

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Introduction

The macroeconomic and markets environment has rarely been as unpredictable as it is today. Geopolitics and trade tensions have reemerged as a dominant concern, while 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, strained multilateral cooperation frameworks (such as trade tensions between US and China) and tightening of immigration laws, combined with deregulation in certain sectors, corporate decision-makers are facing significant challenges in navigating the complex risk landscape and identifying opportunities. We anticipate increased markets volatility with even short-term market fluctuations 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 decision-making processes. Our objective is to equip them with a deeper understanding of the primary drivers of uncertainty and their potential business implications, enabling them to balance an increasingly uncertain business risk profile with a more stable financial risk profile through effective hedging strategies.

This document provides a comprehensive overview of the key themes that will shape the corporate risk management landscape in 2025. Based on BNP Paribas Markets 360 views, we commence 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 explore practical risk management strategies to address investment and cash flow uncertainties, mergers and acquisitions as a growth driver, challenges posed by deglobalisation, impact of inflation on corporate margins and competitiveness, and the complexities of decarbonisation amid global divergence in climate policies . Finally, we highlight potential scenarios that could derail our base case and provide guidance on how to prepare for these risks.

Throughout this paper, we underscore the importance of flexibility and agility in navigating the uncertain environment. By providing professional analysis and practical guidance, this document aims to empower corporate decision makers with the necessary insights to strengthen financial resilience and drive business growth in a rapidly evolving landscape.

Navigating macro-economic unpredictability in 2025

The global economy, and in turn financial markets, are confronting a multitude of known unknowns, many of which will be influenced by the foreign, economic, and trade policies of US President Donald Trump, their timing and sequencing, as well as the response to them from other governments.

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

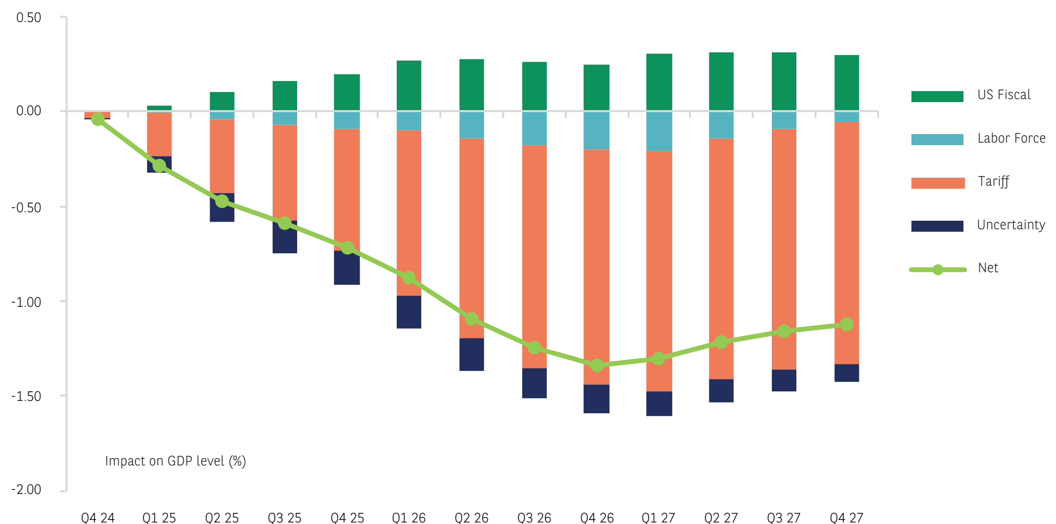
Trade policy uncertainty has returned with a vengeance

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

This combination of policies is likely to raise US inflation (to about 4%), which in turn will prompt US Federal Reserve to maintain policy rates on hold throughout 2025, and decelerate US economic growth. We anticipate that the 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 expected to be a net negative for global GDP growth. Deglobalisation, along with the continued disinflationary impulse from China, suggests that inflation will likely 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 anticipate that many central banks outside of the US will ease policy settings (we expect the Europe Central Bank to cut rates to 2%), this divergence in central bank policies and the resulting strengthening of the US dollar are likely to 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 they were in 2008. Most external imbalances are narrower today compared with those during the global financial crisis, reducing balance of payments crisis risks. Looking ahead, we expect most EM central banks to 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 lack credibility in their monetary and fiscal policy (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 implement additional fiscal stimulus to mitigate both structural and cyclical headwinds, which could help to stabilise the growth trajectory.

In Europe, increased defence spending - whether as part of a deal with the US or in pursuit of 'strategic autonomy', could help to boost GDP over time. The German elections on 23 February 2025 could also lead to more growth-friendly policy, including greater fiscal flexibility and structural reforms.

Fiscal fragilities:

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

At the same time, fragile political situations – even in countries with seemingly stable majorities like the UK – make it difficult to boost revenue through implementing tax increases. 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:

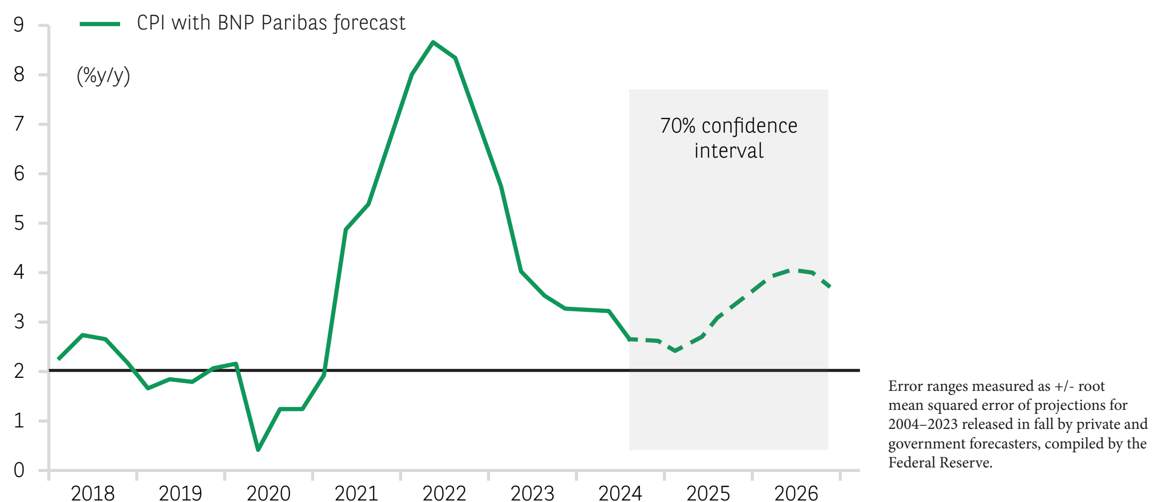
We anticipate the USD to appreciate further if US trade and monetary policies unfold as we expect. The USD's strength, in our view, should be most pronounced against currencies with central banks that are willing to tolerate currency weakness to stimulate growth, as well as those currencies most impacted 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 is also likely to contribute to increased FX volatility. Notably, markets may swing sharply on headlines, which may be deviate from expectations, being either relatively dovish or hawkish. As a result, we also expect vol-of-vol to increase.

Rate cuts to lead yields lower, though fiscal risks may pose some challenges:

As most central banks shift towards rate cuts, we expect bond yields to be broadly lower this year, although US Treasuries may prove more stubborn with tariff-driven inflation risks keeping the Fed on hold.
Fiscal concerns could lead to a build-up in term premium in long tenors, as low growth and increased defence spending could spark concerns over already substantial budget deficits. We forecast 10y Bond yields to decline towards 2%, while 10y US Treasuries may remain relatively stable until growth begins to deteriorate.
The interest rate differentials could be more pronounced between US and China.

Large swathes of tariffs to lift US inflation



Error ranges measured as +/- root mean squared error of projections for 2004–2023 released in fall by private and government forecasters, compiled by the 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 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 disruption 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, increasing renewable capacity will alleviate upside price pressures from Q2. Additionally, power supply in France will likely receive 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 believe that cheap European equities have the potential to outperform Japanese peers and we 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 spending 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 the 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

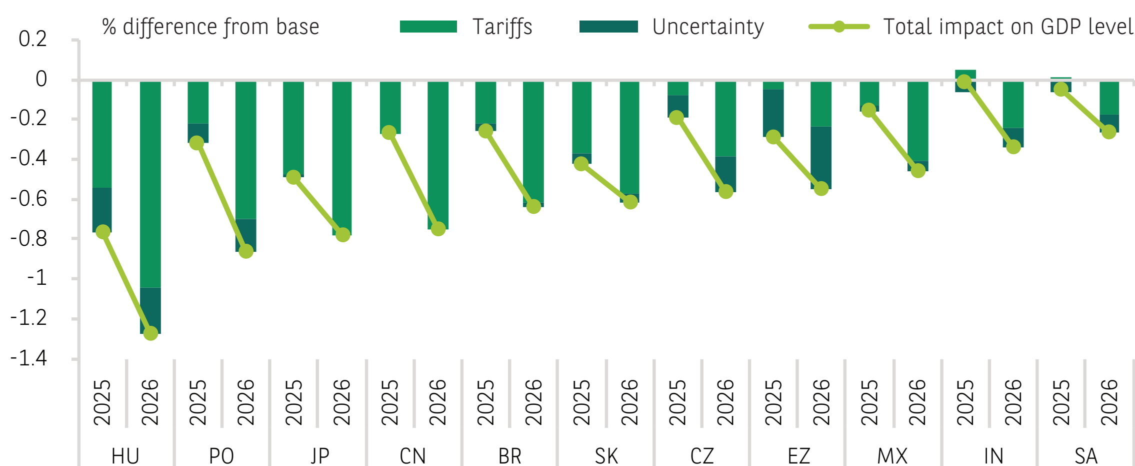
We expect the US trade policy shift to be felt across the world, from both an economic and geopolitical perspective, as President Trump has shown a clear sensitivity to trading partners with a significant trade surplus versus the US.

APAC countries among the 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 APAC, 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. We expect larger fiscal measures in China from March 2025 National People's Congress and further PBoC rate cuts. In the eurozone, we believe 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.

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



Source: BNP Paribas

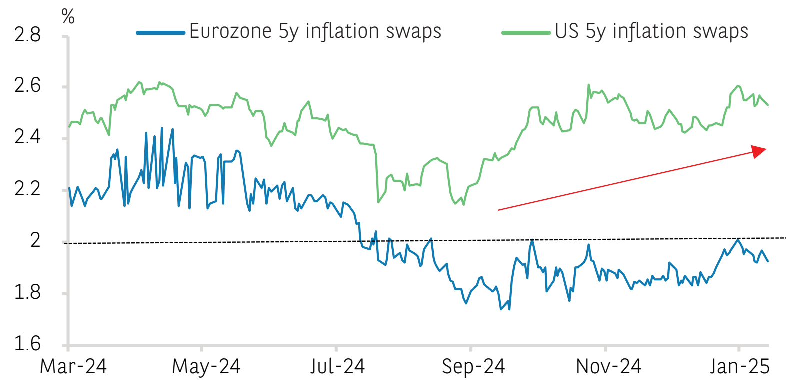
US consumers and exporters to be impacted:

In our opinion, 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 believe tariff policies are not fully priced in yet, and tariff implementation should still support the USD.

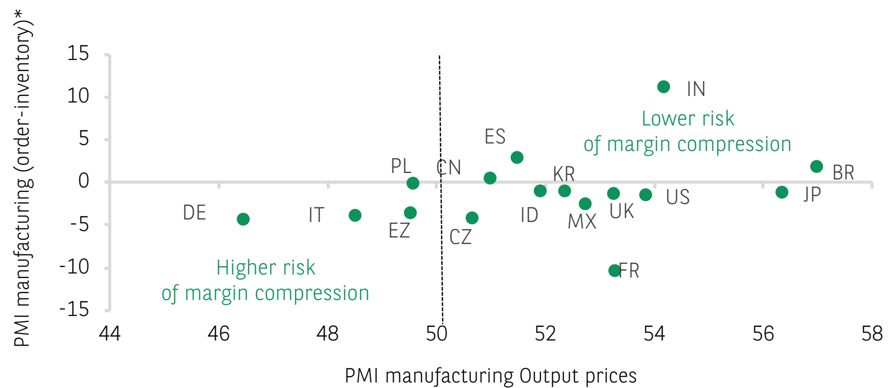
We consider the MXN, CAD, CNH, and EUR and its proxies (Central and Eastern Europe) to be particularly vulnerable to tariffs.

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 who are 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

The below part outlines 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.

In APAC, we expect higher volumes of cross-border M&A in 2025 focused in sectors such as technology, healthcare, retail and renewable energy. Private Equity players are likely to be active in the region, continuing to deploy their capital in Australia, India, and Japan.

Meeting the investment requirements while navigating the uncertainties, 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 aiming to drive growth through investment, this requires 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:

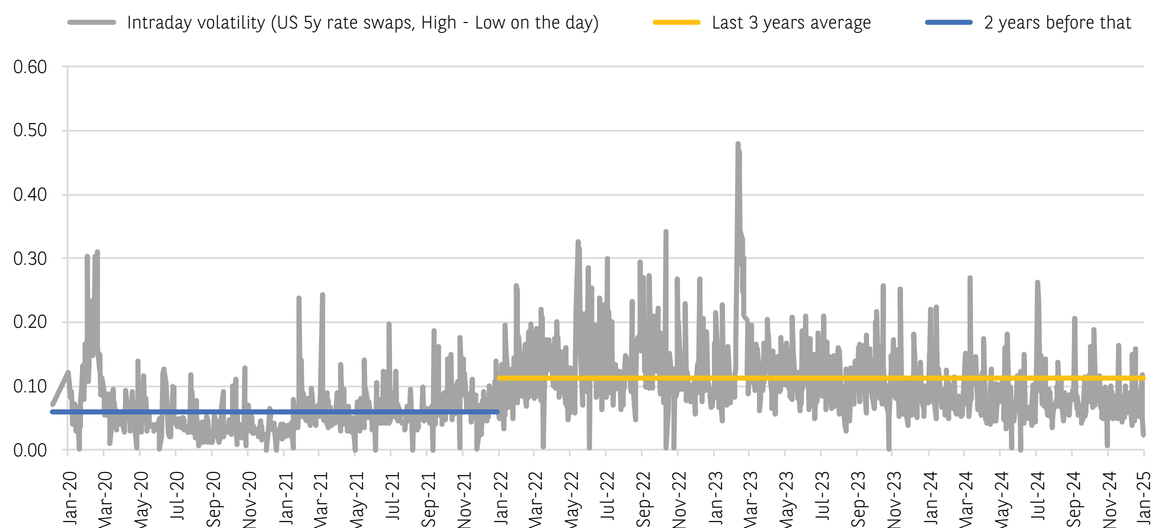
Many corporates still benefit from attractive USD fixed rate financing costs locked in 2020 and 2021. However, the higher rates over the last two years have significantly increased the cost of floating-rate debt. This effect will compound once historically attractive fixed rate debt starts to roll off. In this environment, it is too easy to look at static interest rate risk by focusing on the current stock of debt and fixed-floating mix. However, factoring 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 in 2024, prior to 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 USD rates likely to remain volatile throughout the year, an agile and flexible risk management approach will be essential. 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 that funding activity aligns with 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.

RMB and JPY as funding currency:

Throughout the past 2 years, there was a clear trend of corporates using RMB as funding currency. We expect this to continue as local monetary policies are likely to slowly diverge from the Fed's expected hawkish path. Many multinational corporates follow the "in-China-for-China" strategy to increase onshore RMB borrowing. For Chinese corporates, the borrowing costs in both onshore and offshore RMB are often cheaper than USD and EUR, resulting in local funds being used to support their overseas investments. To a lesser extent, JPY may serve a similar purpose although an upward sloping JPY rate curve combined with a wider credit spread is likely to dampen after-swap efficiencies.

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 USD 2 trillion[1] of assets to invest and stands ready to allocate it towards 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.

Cash flow uncertainty

As we enter 2025, the business landscape in APAC is marked by heightened uncertainty, largely driven by the unpredictability of the Trump administration's policies and global response thereto. Risks to exporters in APAC are two-sided: on the one hand, market expectations of tariffs and a hawkish Fed are resulting in broad USD strength, while on the other hand, increased tariffs and rising inflation are likely to trigger a global slowdown in the second half of 2025.

Some exporting sectors and industries such as shipbuilders (Japan, Korea), technology services (India, China, Vietnam), tourism (Thailand, Indonesia) remain more sensitive to currency fluctuations. On the other hand, importers of fuels and metals, countries like India and Indonesia may suffer the brunt of higher USD.

Mitigating uncertainty through flexibility:

The policy uncertainties and geopolitical tensions highlighted earlier 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 [APAC exporters] may consider option-based solutions, such as collars, to reduce carry costs and increase hedging ratios to lock in favourable USD levels.
- USD [APAC importers] 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.

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

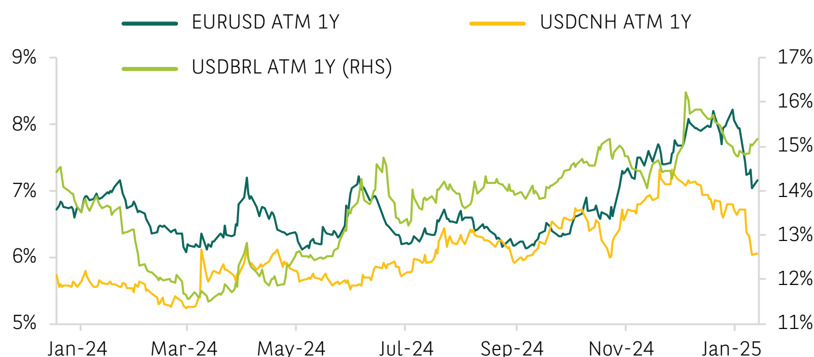
Hedging EM currency exposure – a country-by-country approach:

The strong USD and elevated FX volatility create unique challenges for corporates looking to hedge EM currencies. In 2025, with the concern of policy uncertainty could have wide-ranging consequences on fiscal policy and debt sustainability in specific EM geographies, a tailored approach is essential. In APAC, we expect USDRMB to rise towards 7.50, with KRW and THB also particularly vulnerable. Meanwhile, 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.

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 enhance decision making, respond more effectively to market fluctuations, and ultimately better navigate the challenges of cash flow uncertainty.

Optimising excess cash through financial investment

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 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.

APAC region contributes to ~25% of global deal activity. Investors continue to see an opportunity for growth and value creation within APAC. While the region has seen net-inbound activity, we are observing an increasing interest in outbound M&A from countries such as China and Japan. Energy transition, technology and healthcare have been among the most active sectors in M&A activity. The trend for cross-border expansion by corporates is also expected to continue, bringing fresh investments to the region.

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.
- Continued de-risking of supply chains through local or regional production build-up, given looming threats over international trade, especially between US and China.
- As USD continues to appreciate against APAC currencies, US Sponsors/investors may take this opportunity to lock-in favourable valuations to reduce cost of entry into new investments in the APAC region and improve their IRR.
- 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 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, corporate treasurers will still need to navigate several uncertainties and 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, in addition to concerns around weaker local EM APAC FX on divestments.
- 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 prioritised 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 adopting more bespoke and dynamic M&A hedging strategies between the investment decisions and closing stages. 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 clients acquiring assets in high-yielding currencies, such as USD and GBP, as the carry benefit will cover part (if not all) of the embedded option cost. Meanwhile, 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.

For inbound APAC M&A and large project transactions, corporates also need to consider market specificities and local regulatory frameworks. Given the dynamic nature of markets in terms of liquidity, tenor, frameworks and regulations across different countries, corporates may require bespoke funding and hedging strategies. Factors such as availability of onshore and offshore markets may also need to be carefully considered.

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 1,000 in 2019 to 3,000 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 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.

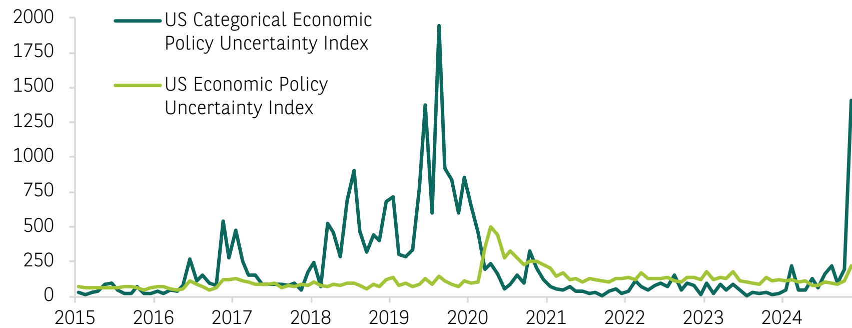
Two specific sectors are particularly at risk.

- **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 economic landscape, treasurers will need to be agile and proactive in monitoring 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 disproportionately affected by rising energy costs and supply chain disruptions. In APAC, the effect is less pronounced with China under deflationary pressure.

On a global basis, various inflation upside risks remain, including:

- potential US-led tariff implementation and second-round effects,
- currency depreciation versus USD resulting in higher import prices,
- geopolitical tensions and their impact on energy prices,
- uncertainty over the pace of rates hikes/cuts,
- tight labour markets (US) and sticky service inflation,
- end of government support for household bills, and
- de-carbonisation and re-designing of global supply chains.

Hedging against uncertainty – the future of inflation management:

Corporates are increasingly sensitive about protecting their profit margins and are actively exploring derivative solutions to hedge inflation and commodity risks. 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, corporates likely 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 collaborate closely to push for linking contractual formulas to liquid and broad-based indices that can be risk managed.

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 slowdown 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 remain committed to the low-carbon transition, albeit with more uncertainty on policy and fiscal support. In APAC, renewable energy build-up continues, especially in Korea, Taiwan, and Australia.

In addition, corporates may 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.

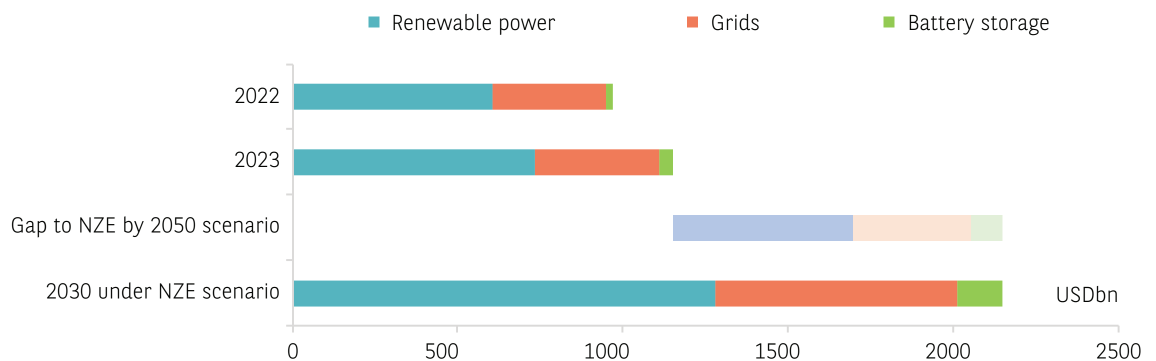
Unexpected policy shifts may also lead to price fluctuations and uncertainty among market participants, with high market volatility creating further risks to the energy transition and destabilising supply chains. In this environment, we expect corporates to seek enhanced commodity hedging solutions, 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.

EV is a key space to watch in APAC. China has driven 80% of the Global EV sales in 2024. US and Europe based manufacturers have struggled in 2024 due to cuts in subsidies by the governments. From a consumer standpoint, there is a growing interest in hybrids including PHEVs and HEVs. The EV proliferation will continue to drive demand for battery metals, such as lithium, cobalt, graphite, nickel and copper.

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:

Many APAC countries are progressing on the path towards net-zero carbon emissions. China aims for carbon neutrality by 2060, while India targets net carbon neutrality by 2070. With strong support from policymakers, there is a tailwind for renewable energy projects and investments are expected to reach hundreds of billions of dollars in the next twenty-five years. Countries such as South Korea, Taiwan, Japan, and Australia have seen a large boost in renewable projects in 2024 and are expected to continue momentum. For instance, South Korea's MOTIE (Ministry of Trade, Industry, and Energy) opened a tender for 2.8 GW of wind and solar energy in 2024. This is the first of several tenders planned under the new roadmap.

Given the choppy policy and market 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. 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).

What could go wrong?

Grey swan: The Fed hiking rates again

In our view, 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.

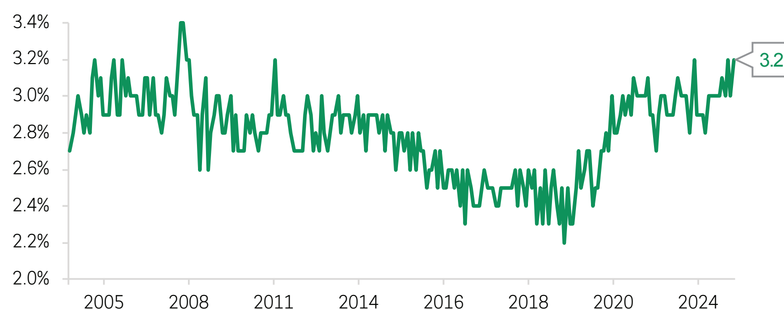
For the Fed to re-engage with rate hikes, we think we'd need to see:

- 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

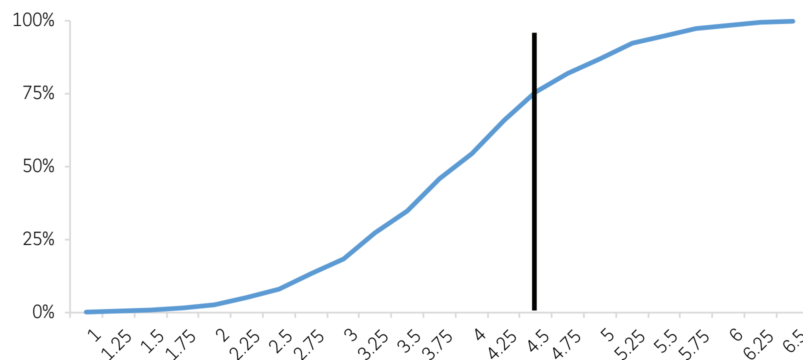
University of Michigan 5-10y inflation expectations



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

Conclusion

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 will likely contribute to a higher US inflation, slower economic growth, and a stronger 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 should develop 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 corporates look to tap resilient US growth, while US buyers find attractive valuations in EMEA and APAC. 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 prominent concerns in 2025. Corporates should consider the need for realignment of input supply chains, triggering adjustments in hedging programs. Treasurers should also develop 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 decarbonization efforts and to generate uncertainty on the economic sustainability of low-carbon transition projects. Corporates will look to adjust to this new paradigm with comprehensive but nimble hedging strategies.

While it is 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 should 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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