

# 2026 CORPORATE RISK MANAGEMENT OUTLOOK

Navigating the Capex super cycle

CORPORATE & INSTITUTIONAL BANKING  
GLOBAL MARKETS  
JANUARY 2026



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# The story shaping our view

The story shaping  
our view on  
the world



Our view on  
the market  
environment



Risks that  
could affect  
our outlook



\*Make Europe Great Again

- Traditional norms are being challenged and conflicts are on the rise
- US tariff policy and shifting trade patterns are introducing greater instability
- Europe is under pressure from many angles, but has a real opportunity (MEGA\*)
- Tech race heating up and AI story is firmly intact (for now)

- US interventionism increases uncertainty ahead of mid-term elections
- US growth supported by AI investment and sizeable fiscal deficit
- Fed challenged by persistent inflation and political pressure amidst a global central bank easing bias
- European growth driven by spending on defence and infra

- Rates – general easing trend and higher long-term rates will deliver steeper curves
- FX – weaker USD, stronger EUR, GBP facing headwinds and high carry EM FX remain supported; implied volatility to remain low
- Commodities – energy price forecasts revised up; bullish on precious metals and stable base metals
- Credit – spreads tightening further as the credit cycle continues
- Equities – AI investment and benign policy support further upside in particular in Europe

- Geopolitical tensions abound from the Middle East to the Western hemisphere, with salient escalation risks
- Legal challenges to US tariff policy create volatility, uncertainty on fiscal revenues and inflation
- Elections in Emerging Market countries usher in periods of new volatility
- AI is unable to justify current investment levels – is there a bubble that could burst?



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# Key themes and risks for this year

		BNP Paribas' market view...	How corporates could manage risk...
Key themes			
Geopolitical tensions		<ul style="list-style-type: none"><li>■ <b>Tensions</b> across the globe have created <b>escalation risks</b>.</li><li>■ Resulting <b>energy cost increases</b> could dampen EU growth and increase <b>FX risks</b>.</li></ul>	
MEGA - Europe's CAPEX super cycle		<ul style="list-style-type: none"><li>■ German fiscal stimulus, structural reforms and increased EU integration drive our <b>above-consensus Eurozone growth view</b>.</li></ul>	
US midterms		<ul style="list-style-type: none"><li>■ A <b>risk-off environment in the lead-up</b> followed by reversal once the outcome is known; increased political tensions and government shutdown can <b>drive long-term USD yields up</b>.</li></ul>	
Risks to consider			
Tariff uncertainty		<ul style="list-style-type: none"><li>■ Judicial and <b>political wrangling on US tariffs</b> could trigger a negative budget impact, <b>drive US yields up and weaken USD</b>.</li></ul>	
EM elections		<ul style="list-style-type: none"><li>■ <b>Elections</b> in Colombia, Brazil, Hungary and South Africa may add to <b>volatility in EM currencies in 2026</b>.</li></ul>	
AI bubble bursts		<ul style="list-style-type: none"><li>■ While we expect <b>AI stocks to outperform in 2026</b>, a sharp re-rating may trigger a <b>wider equity market pullback</b> and weigh on growth and credit sentiment.</li></ul>	



# Our key forecasts

Asset class	BNP Paribas' Market View	Year-end 2026 levels
FX	<ul style="list-style-type: none"> <li>■ <b>USD should stabilise</b> after 2025 weakness.</li> <li>■ <b>Asian currencies should depreciate</b> given interest rate differentials.</li> </ul>	 EURUSD 1.20  USDJPY 160
Rates	<ul style="list-style-type: none"> <li>■ <b>Long-term yields should rise</b> on supply and demand dynamics.</li> <li>■ <b>Yield curves are set to steepen</b> as central banks retain a global easing bias.</li> </ul>	 10Y UST 4.50%  Bund 3.10%
Commodities	<ul style="list-style-type: none"> <li>■ <b>O&amp;G prices should slip in Q1 but bounce back afterwards</b> with downside risk from rising supply and upside risk from geopolitical tensions.</li> <li>■ <b>Power prices should see some easing after Q1</b>, and we remain bullish on gold.</li> </ul>	 Brent 63  Gold 4,760
Equities	<ul style="list-style-type: none"> <li>■ <b>AI investment and benign policy support equity prices</b> especially in Europe, US AI, China Tech and Industrials globally.</li> </ul>	 S&P 500 7,500  STOXX 600 650
Credit	<ul style="list-style-type: none"> <li>■ <b>Spreads should continue to tighten</b> as corporate bond supply increases, but the credit cycle continues.</li> </ul>	 US HY -27bps  Europe IG -8bps

Source: BNP Paribas Markets 360™, January 2026.



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## Further Reading

A detailed view on the Macroeconomic background, with focus on interest rates and foreign exchange, followed by details on key themes, risks to consider and risk management themes



# Macroeconomic outlook for 2026

## ECONOMIC OUTLOOK: IN A GOOD PLACE

- **Resilience stays central** – Easier monetary policy, targeted fiscal stimulus and solid household balance sheets continue to cushion policy-uncertainty and tariff pressures.
- **AI spending and cheap oil fuel activity** – Strong AI-related capital outlays together with low oil prices lift output in the eurozone and other oil-importing regions.
- **Down-side risks are fading** – Most previously flagged threats (fiscal-risk premia, tariff-driven inflation) have proved modest, Japan being the lone notable exception.
- **Growth momentum to continue** – Additional rate cuts in the US, China and several EMs, plus fresh fiscal stimulus in the eurozone and Japan, deregulation and AI projects, should keep global activity solid.
- **Eurozone outperforms consensus** – We see 2026 GDP expanding 1.5%, driven by swift, largely German-led fiscal measures that we deem more effective than most other forecasters.
- **Inflation eases but stays above target** – The US and Japan are likely to see inflation remain above their goals through 2026-27, even as overall price pressures soften.
- **AI's mixed price impact** – Long-run AI-driven productivity is disinflationary, but near-term defence spending, AI-related power-price pressures and a strategic-independence push may lift costs temporarily.
- **China and emerging markets** – China's "anti-involution" push and tech self-sufficiency sustain deflationary forces; EMs should see continued disinflation supported by modest growth, FX appreciation and stable commodities, though upside risks linger.
- **Easing cycle winding down** – Policy rates remain above neutral, leaving modest cuts more likely than tightening, except in the eurozone and Japan. We expect an ECB hike in H2 2027 and three 25-bp BoJ hikes by end-2026, a shallower tightening than an economy above potential would demand.

### BNP Paribas' key forecasts for 2026

GDP growth (annual, y/y)	
US 1.9%	Eurozone 1.5%
CPI inflation (annual average, y/y)	
US 3.1%	Eurozone 1.9%
Policy rates (year-end)	
Fed 3.25 – 3.50%	ECB 2.00%

Source: BNP Paribas Markets 360™

## MARKET OUTLOOK: STEEPER CURVES, BALANCED USD

- **Long-end rates set to steepen** – In the US, Japan and the eurozone, the back-end of the curve will sell off, steepening further despite a ~16% drop in net G4 issuance for 2026.
- **Supply still historically high, especially Germany** – German sovereign issuance is forecast at €130 bn—four times the 25-year average—making European core duration the most bearish segment, even as euro-government spreads remain favourable.
- **Demand for the long end softens & political risk bites** – Dutch pension-fund reforms, capacity limits for Japanese life insurers and upward-inflation surprises curb long-term appetite; UK duration-overweight case is clouded by a potential left-ward shift, adding a political-risk premium to yield forecasts.
- **EM duration looks attractive** – Market-priced rates sit above our neutral estimates, especially in CEEMEA and Latam, leaving room for cuts; modest private-consumption growth and low Chinese input prices keep inflation pressure mild, boosting volatility-adjusted carry.
- **Commodities and FX** – Brent is projected around \$51/bbl in Q1 2026, rebounding ~\$10 in Q3, with downside from rising supply and Venezuelan sanction relief and upside from geopolitical risks. The USD should stabilise after 2025 weakness, supported by AI-driven equity inflows, while modest eurozone growth nudges EUR/USD slightly higher. A carry-friendly backdrop keeps FX volatility low, though Brazil and Hungary elections and US mid-terms uncertainty could spark spikes, preserving value in tail-risk hedges.
- **Credit remains bullish, high-yield core** – Corporate bonds are no longer scarce; tech-spending is only entering a late-cycle stage, keeping the credit cycle alive. High-yield spreads stay compressed and supply abundant, while disciplined IG sector selection and avoidance of the long end mitigate risk.
- **Equities stay upbeat** – After a consolidation phase, BNP Paribas expects the S&P 500 to hit 7,500 and the STOXX 600 650 in 2026, staying Overweight Europe, Neutral US (overweight AI), Neutral EM (overweight China-Tech) and Underweight Japan, with Industrials upgraded to Overweight.

### BNP Paribas' key forecasts for 2026

Sovereign market rates (year-end)	
US 10y 4.50%	Germany 10y 3.10%
FX (year-end)	
EUR/USD 1.20	USD/JPY 160
Brent (Q4 average)	
USD 63/bbl	

Source: BNP Paribas Markets 360™



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# Rates: Higher yields and steeper curves

## HIGHER BACK-END RATES

- **U.S. curve 2026** – 10-yr  $\approx 4.5\%$ , 2-yr  $\approx 3.65\%$ ; we see a Fed cut in March 2026, producing modest steepening that outpaces market-priced forwards. Long-end rates can rise amid steady GDP and persistently above-target inflation while rising deficits blunt the Treasury's "T-bill and chill" issuance plan.
- **Eurozone yields** – German fiscal expansion and record sovereign issuance lift term premiums; an on-hold ECB and Dutch-pension-fund-transition swap-paying flows keep the steepening bias intact.
- **UK supply-demand** – Autumn Budget points to modest fiscal consolidation, improving gilt balance for 2026; May-local-election risk could keep early yields flat before a H2 rally.
- **Japan rate path** – BoJ tightening continues but the market thinks it remains behind the curve, and fiscal support increases; steepening pressure persists, moderated by a modest cut in super-long end bond supply.

### BNP Paribas' Rates forecasts

(%)	Spot (26 Nov)	2026			
		Q1	Q2	Q3	Q4
US 10-year	4.00	4.25	4.35	4.45	4.50
Germany 10-year	2.68	2.90	3.00	3.05	3.10
UK 10-year	4.44	4.50	4.50	4.40	4.30
Japan 10-year	1.80	1.90	2.00	2.05	2.10

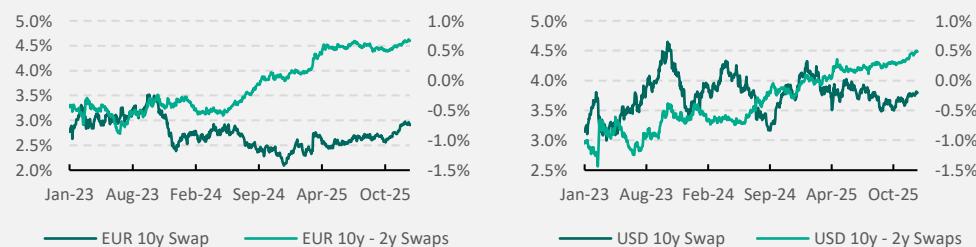
Source: BNP Paribas Markets 360™

## RISING R\*: FISCAL, DEMOGRAPHIC & AI DRIVERS

- **US neutral rate now  $\approx 3.75\%$**  – Policy has moved from slightly restrictive to essentially neutral and could turn stimulative in early 2026 if the Fed continues trimming.
- **Immigration & AI**: Recent limits on immigration have only a modest near-term effect, while past immigration inflows, higher debt-to-GDP and an AI-driven productivity surge add upward pressure to the neutral rate; our model shows productivity shocks raise the neutral rate sharply.
- **ECB's stance** – With the depo rate at 2.00%—mid-point of our neutral range—the ECB's current stance can be read as neutral, reflecting a holistic view that also looks at bank-lending dynamics.
- **Eurozone drivers** – Elevated debt-GDP ratios and productivity gains linked to the German investment plan and NGEU reforms should nudge the eurozone neutral rate higher, implying eventual policy-rate hikes.

## RISK MANAGEMENT IMPLICATIONS

- **Fix / floating strategy review**
  - 2025 saw more corporate clients revising their balance of fixed and floating rate debt from a largely fixed base after exiting the low-rate environment prior to 2022. This included a review of the net impact from variability on both the return on liquidity, valuation of long-term pension and other provisions, and accounting for future refinancings
  - Optimizing the timing when increasing the amount of floating rate debt remains a challenge. Strategies that average into the swap position and the addition of options can help to mitigate timing risk.
- **Long-term market value**
  - For utilities, real estate or infrastructure investors with long-term assets, higher yields will put pressure on valuations. Corporate & financial sponsors increasingly focus on interest rate risk management through that lens by focusing on the longer-term value impact of the assets through strategic, longer-dated hedging programs
  - Higher rates offer an opportunity to review the hedging of balance sheet provisions (such as environmental rehabilitation obligations in the energy and utility sector) and on pension liabilities
- **Swap to floating while optimizing carry**
  - As the curve steepens, particularly on government bonds, companies will find attractive entry points to re-balance their fix-floating mix by receiving the long-end on the curve.
  - In many development market rates, the government bond curves are steeper than the swap curves. Receiving fixed rates via bonds or total return swaps on bonds could offer an attractive alternative to receiving under swaps.



Source: BNP Paribas, as of January 2026. Past performance is not indicative of future returns.



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# FX: Balanced USD outlook, carry remains in vogue

## MIXED USD PERFORMANCE

- EUR / USD to 1.20 by 2026** – Driven by above-consensus euro-zone growth, stronger sentiment and an on-hold ECB, with upside if US equities and the dollar fall together. Downside risk is skewed to a US growth re-acceleration.
- USD-side risks stay unpriced** – Potential catalysts (IEEPA-tariff ruling, a dovish Fed chair, a non-linear USD reaction to labour-market weakness) are unlikely to be priced until they materialise.
- USD / JPY bullish to 160** – Slow BoJ policy normalisation, fiscal strain worsens and US growth re-accelerates, making the pair especially sensitive and implying a very strong EUR / JPY stance.
- GBP underperforms** – Forecast EUR / GBP at 0.92 by end-2026, reflecting further BoE cuts and tail-risk from a less market-friendly UK government.
- CEEMEA tailwinds, downside nuances** – EUR / CEE currencies stay broadly stable, offering positive carry. Risks differ: EU-fund inflows in Poland, wide CZK differentials, binary Hungarian election outcomes, continued TRY real appreciation, and a sub-17 USD / ZAR break requiring large fund repatriations.
- Latam outlook** – USD / BRL stays elevated into Q3 before declining post-elections as uncertainty fades; CLP valuation gap closes if a market-friendly election winner emerges; BanRep hikes keep USD / COP below forwards; MXN faces asymmetric downside from any US labour-market slowdown.
- Asia** – mixed but modest moves – RMB sees modest nominal appreciation, constrained by domestic deflation; KRW outperforms on improving inflows; USD / TWD stays stable as lifer FX hedging flows wane; USD / MYR benefits from the semiconductor export cycle; INR steadies as portfolio inflows return; THB remains weak due to economic-political risks and possible measures to reduce THB's gold beta.
- FX-vol outlook** – Carry-friendly environment keeps implied vol low, though election risk in Brazil, Hungary and US mid-terms could spark temporary spikes.

### BNP Paribas' FX forecasts

	Spot (26 Nov)	2026					2027
		Q1	Q2	Q3	Q4	Q4	
EURUSD	1.16	1.17	1.18	1.19	1.20	1.22	
USDJPY	157	157	158	159	160	160	
GBPUSD	1.32	1.30	1.30	1.30	1.30	1.30	
USDRMB	7.08	7.04	7.00	6.97	6.95	6.80	

Source: BNP Paribas Markets 360™

## RISK MANAGEMENT IMPLICATIONS

- In 2025, the U.S. dollar experienced the second-largest intra-year depreciation of the last two decades, falling roughly 13% against the euro (relative to January levels) and weakening against most currencies. A comparable decline was last observed in 2017, when EUR USD moved from about 1.0450 to beyond 1.20.
- With further dollar weakness anticipated, European exporters are questioning how best to manage their FX exposure and mitigate the adverse effects of carry costs.
- After a highly volatile first half of 2025, volatility dropped sharply in the second half, making protection against large, unexpected moves relatively inexpensive. For example, 1-year EURUSD volatility is now at its lowest level in the past year, about 30 % below the peak observed around "Liberation Day." GBPUSD volatility is similarly low, sitting in the lowest fifth percentile and roughly 25 % beneath its annual highs (see chart below).
- In this environment, corporates seeking to hedge foreign-currency revenues and assets have a broad set of tools at their disposal:
  - Automated carry-reduction strategies – such as BNP Paribas' Dynamic Hedging Program – which embed low-cost optionality and lock in favourable (or lower) carry in currencies like USD and MXN as carry on both is currently near three-year lows.
  - Vanilla options or zero-cost structures – for instance Participating Forwards – which provide full protection on a specific exposure while still allowing participation in favourable market moves.



Source: BNP Paribas, as of January 2026. Past performance is not indicative of future returns.



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# Key theme: Geopolitical tensions

## ELEVATED GEOPOLITICAL RISKS: VENEZUELA, RUSSIA-UKRAINE AND THE MIDDLE EAST

- Russia-Ukraine:** While US-brokered peace talks have lifted market sentiment, risks remain elevated. We believe a stable ceasefire requires additional de-escalatory steps before we can assume the normalised relations needed for a lasting cessation of hostilities and/or a return of Russian energy to Europe. An escalation in hostility is also a risk to consider. Additionally, the EU's determination to accelerate its phase-out of Russian gas, strengthens our view that a return to Russian gas was unlikely despite ongoing ceasefire talks. Recent EU/US sanctions on Russia also pose risks to supplies of oil products. Should tensions continue, oil prices should stay near current levels, while an indefinite ceasefire would shave off USD 5/bbl in our view.
- Middle East:** Israel-Hamas ceasefire fragility, Houthi Red Sea attacks, and unresolved Israel-Iran issues, could trigger a \$10/bbl jump in crude prices and provide significant upside to TTF if Israeli gas exports to Egypt are curtailed, especially now that Egypt has installed the infrastructure to import more LNG.
- Venezuela:** We view a smooth transition to a new leadership is the most likely outcome, with sanctions relief through Q2 2026 followed by a gradual recovery in oil production, which should see Brent crude drop to USD 51/bbl in Q1. However, civil unrest, increased tensions with the US, no sanctions relief, a stronger supply increase, or even a production collapse are non-negligible risks. The US administrations' actions could also have wider implications – reports suggest the US president may wish to take action in other Latin American countries, Greenland and Canada to achieve strategic aims. If the actions in Venezuela do deliver lower energy prices this could also provide more room for a tougher stance on other oil-producing nations such as Iran. Furthermore, some commentators note the possibility that President Trump's actions could embolden other countries in their territorial pursuits, although we think the reality is more nuanced and many other factors will determine other leaders' decisions.

## MARKET IMPLICATIONS: HIGHER ENERGY PRICES, WEAKER EUR

- Our oil base case assumes limited impact from geopolitical risks as de-escalation pathways and price-sensitive sanctions keep the supply overhang modest, resulting in range-bound Brent prices.
- Our gas outlook reflects modest upside in 2027 from the EU's accelerated phase-out of Russian gas.
- Higher energy prices pose downside risks to our bullish EUR outlook, as the eurozone's large energy deficit makes its current account sensitive to any spike in prices. Other energy importers may be vulnerable (namely Asia and CEMEA), while USD and oil exporters (NOK, CAD) might outperform.
- Steeper curve under a durable Russia-Ukraine ceasefire. Higher growth expectations may drive higher term premia. The mixed inflation outlook though may anchor the ECB, steepening the curve.

## RISK MANAGEMENT CONSIDERATIONS

- In this context, we have seen increased interest from corporates to quantify their overall risks, assess any potential diversification benefit arising from their portfolios and look at ways to reduce their risks, while minimizing any potential costs.
- The BNP Paribas team can help clients quantifying the risks and provide support on different ways to hedge these risks, usually via ad hoc tail options on specific currency pairs or on a Basket of currencies.
- The uncertainty and the increased geopolitical risks tensions in recent years have led Corporate clients to use more optionality and incorporate more flexibility in their hedging strategies both for FX and Rates.
- Basket options in particular** would benefit from the current low volatility and low correlation between the currency pairs at stake and as a result, we have seen a renewed interest on these instruments recently for NIH, EBITDA and revenues hedging purposes.
- Some EM currencies (like CLP, PLN, ILS & KRW) could be particularly affected** by geopolitical risks but clients looking to hedge them would struggle with high carry cost and thin liquidity. We have summarised in the table below strategies that would make sense based on current market parameters.

How have hedging parameters evolved in the past year?*					Hedging instruments that may make sense
EUR-FX	Spot	1Y Carry Cost	1Y Implied Volatility	1Y 25D Risk Reversal	Hedging instrument
EURCLP	1033	1.8%	11.0%	1.5%	Forward
EURPLN	4.21	1.7%	5.0%	1.3%	Forward/Participating Forward
EURILS	3.66	1.1%	9.2%	1.4%	Forward
EURKRW	1713.80	0.4%	7.1%	0.4%	Bought Option/Participating Forward

\*Colour coding is based on percentiles versus 1Year historical values. Dark Green: 0-10th Percentile; Light Green: 10-25th Percentile; White: 25-75th Percentile; Red: 90-100th Percentile. Source: BNP Paribas, Bloomberg as of 12 January 2026.



# Key theme: MEGA - Europe's CAPEX super cycle

## EUROZONE: (RE)STARTING THE ENGINE

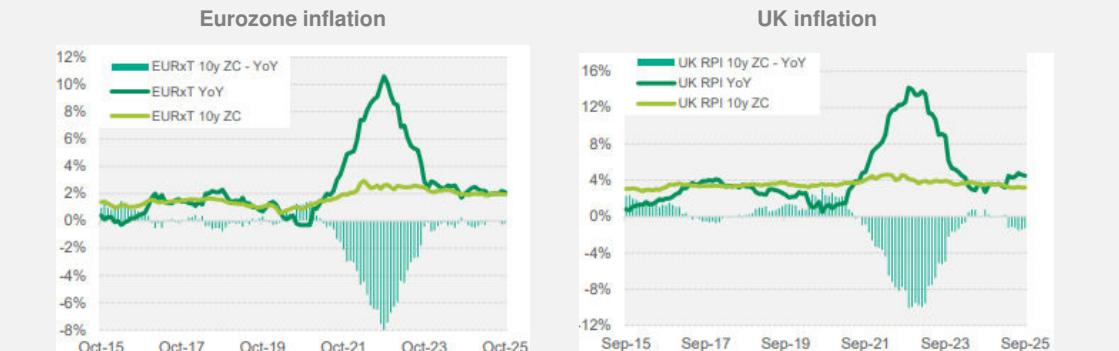
- Eurozone outlook** – Optimism is anchored in German fiscal stimulus; we project robust GDP growth of 1.5% in 2026 and 1.6% in 2027, decisively ahead of consensus.
- German stimulus impact** – Heavy-duty defence, infrastructure and EU-procurement spending should start to be felt this quarter, peak between H2 2026 and H1 2027, and generate spill-over growth for neighbouring member states.
- Structural reforms** – Draghi-report-derived integration steps and the “competitiveness compass” (20+ measures) stress simplification and trade-defence tools, promising productivity gains even though only a modest share of reforms are fully implemented today.
- Fiscal-market integration** – Accelerated EU spending on defence, green and digital transitions is spurring common euro-area debt issuance, bolstering financial sovereignty and laying the groundwork for a future EU safe-asset.
- Political landscape** – While Council compromises can dampen reform speed, a shared sense of urgency and growing strategic coordination make deeper integration and higher common issuance increasingly probable, albeit on a gradual trajectory.

## MARKET IMPLICATIONS: STEEPER EUROPEAN CURVE; STRONGER EUR

- We still expect higher yields, driven by fiscal expansion in Germany, its record bond supply and subsequent repricing of term premium.
- We project a move in EURUSD to 1.20 by end-2026. Our view centres on our above-consensus eurozone GDP growth call, which manifests as a stronger EUR primarily through the growth and sentiment channels, with the rates channel weakened by the European Central Bank likely staying on hold next year.
- BNP Paribas Exane is overweight Europe, targeting 650 for STOXX 600 for the next 12 months.
- European reflation is far from consensus among investors and in the market where Cyclical risk premiums remain high. And yet all recent data suggests the spending and the funding are happening. We like € Cyclical, both IG and HY.

## RISK MANAGEMENT IMPLICATIONS

- Capex financing pre-hedging**
  - The advent of a new investment cycle pushes corporates to adopt a forward-looking debt and funding cost risk management approach as they prepare to fund Capex, e.g. by expanding liquidity pools.
  - Companies are looking at pre-hedging solutions to secure overall cost of funding while managing uncertainties in timing, tenor or debt amounts.
- M&A risk management**
  - M&A is picking up, including through partial disposals, JVs or share-based deals. While overall supportive, the regulatory environment is also less predictable, especially for cross-border M&A.
  - In a low-volatility environment, companies increasingly focus on flexible hedging solutions, often with deal-contingent features, to navigate macroeconomic, capital market and regulatory uncertainties while capturing favourable market entry points to support their M&A strategy.
- Capex inflation hedging**
  - Following Russia's invasion of Ukraine, large supply and construction contracts more often incorporate inflation indexations, especially in the infra and industrial sectors.
  - Corporates are broadly considering mitigating inflation uncertainty on their Capex through inflation swaps, including for less liquid indices.



Source: BNP Paribas, as of January 2026. Past performance is not indicative of future returns.



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# Key theme: US midterms

## US MIDTERM ELECTIONS, 3 NOVEMBER

- **Full House of Representative and one-third of the Senate up for election.** Regardless of the outcome, we think the Trump administration will continue with its pro-growth agenda, in line with our expectation for continued economic resilience.
- **Chance of stimulus checks.** President Trump has floated sending \$2,000 stimulus checks to Americans from the revenue raise from tariffs. If this were to occur, it would raise the risk of higher inflation than our baseline forecast.
- **Affordability, the dominate issue.** Affordability has risen as a theme ahead of the elections with politicians discussing topics like higher utility bills, healthcare costs, and everyday expenses. Recall inflation was a top concern of voters during the 2024 presidential election.

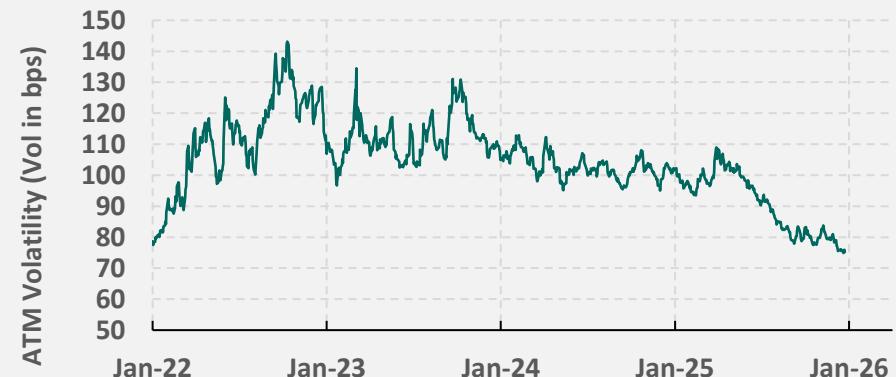
## MARKET IMPLICATIONS: STEEPER CURVE

- **Fiscal stimulus to add steepening pressure on UST curve.** The US administration championing pro-growth policies and fiscal stimulus in the lead up to the election should place pressure on the back end via 1) expectations for better growth, 2) entrenched inflation and 3) larger deficits raising term premia, thus steepening the US curve. Our forecast is for the US 10y yield to close 2026 at 4.5%.
- **Mixed USD performance, risks skewed lower.** Better growth prospects should imply upside risks for the USD, but we think this will be offset by concerns over US debt sustainability. More importantly for FX, the administration will likely reshuffle tariffs to reduce costs on high visibility goods while increasing tariffs on goods the US cannot domestically produce. This will likely contribute to a more bifurcated FX environment going forward. We thus see the broad USD as being mixed this year, but would still argue that the next large move in the USD is more likely to the downside.
- **Cap on energy costs.** Energy is one of the most visible categories for US consumers and we think that one of the priorities for the administration is to keep costs low in the run up to the elections.

## RISK MANAGEMENT IMPLICATIONS

- Potential heightened uncertainty during midterm elections could push term premium and volatility higher. Combined with the risk of further curve steepening, we could see long dated swaps move higher.
- Rates volatility is currently sitting at a historically low level.
- Clients that intend to issue bonds later this year can enhance their pre-hedging toolkit with option-based strategies. Payer swaptions currently offer a historically low premium, enabling client to protect against higher rates while still benefiting if rates move lower.

ATM Volatility - 9m Expiry 10y Tenor



Source: BNP Paribas, as of January 2026. Past performance is not indicative of future returns.



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# Risks to consider: Tariff uncertainty

## CRUCIAL SCOTUS RULING LOOMS ON IEEPA TARIFFS

- **SCOTUS decision pending** – The Supreme Court has yet to rule on the legality of the Trump-era tariffs imposed under the International Emergency Economic Powers Act (IEEPA); the outcome will be a key driver of global trade in 2026.
- **Administration's tariff commitment** – We see the White House keen to preserve the sizable revenue stream from these duties and ready to replace them swiftly if the Court strikes the tariffs down.
- **Short-term bridge: Section 122** – The most probable immediate tool is the Trade Act's Section 122, which allows temporary tariffs of up to 15 % for as long as 150 days, buying time for a more permanent regime.
- **Long-term framework: Sections 232/301** – After the bridge expires the administration is expected to revert to the Trump-era authorities (national-security Section 232 and unfair-trade Section 301) to re-impose duties.
- **Slippage risk** – Our view is that SCOTUS will void the reciprocal tariffs prospectively, avoid major disruption by not ordering refunds, and leave the administration to lean on other statutes to recoup most of the lost revenue. Nevertheless, the efficacy of the replacement tariffs may lag, creating room for "slippage".

## MARKET IMPLICATIONS: HIGHER BACK-END RATES

- **Term-premium outlook** – Our base case expects 10-yr term premiums to rise initially as markets price a higher probability that a new tariff regime will be less effective at cutting the deficit; the model shows a 23 bp widening per USD 1 tn of perceived deficit, implying up to ~30 bp higher yields if tariff revenues are halved.
- **Yield impact** – The premium lift would push 10-yr U.S. yields up, potentially by three-tenths of a percentage point under a scenario where IEEPA revenues fall by 50 %.
- **Immediate FX reaction** – A SCOTUS decision voiding IEEPA duties would remove a key revenue stream, prompting broad USD weakness and creating upside for EUR/USD.
- **Long-run FX picture** – Reliance on Section 232 tariffs suggests a more bifurcated currency environment; Canada, given its export exposure and strained political ties, could be one of the most vulnerable currencies in 2026.

## RISK MANAGEMENT IMPLICATIONS

- **Focus on steeper USD curve:**
  - If the curve steepens, particularly on government bonds, companies will find attractive entry points to re-balance their fix floating mix by receiving the long-end on the curve.
  - Until then, clients with large USD fixing programs could accelerate some of their hedges earlier in the year rather than later to avoid the potential impact on rates.
  - The pending SCOTUS decision makes the use of optional and averaging strategies quite relevant for clients looking to float some of their USD rates exposure.
- **Focus on FX Transaction Risk:**
  - European Exporters could look to **increase EURUSD hedge ratios** and embed optionality via participating strategies to increase flexibility.
  - European Importers could **increase the use of optional or flexible hedging strategies** to take advantage of historically low levels of vol and participate in potential USD depreciation.
  - If 2025 is in any way significant about the USD reaction to tariffs, higher tariffs lead to lower USD, however given the potential changes to tariffs, USD could as well appreciate. In this context, and given historically low levels of vols, clients could manage their risks via **Basket / Tail Options**.
- **Focus on FX Translation Risk:**
  - European clients with USD assets may look to implement **new or increase their net investment hedging programs**. Cost of carry has significantly reduced over the past few months.
  - They may want to **do it earlier rather than later** to avoid suffering from a higher EURUSD entry point and wider EUR/USD rates differential.
- **Broader themes to consider:**
  - Commodity hedging.
  - Bought optionality across asset classes.



# Risks to consider: EM elections

## COLOMBIA - PARLIAMENTARY, 8 MAR | PRESIDENTIAL, 31 MAY AND 21 JUN (TWO ROUNDS)

- Opinion polls show no clear presidential front-runner; the incumbent government's approval has risen to 39 % (-9 pp) and likely will reach the June runoff, but disapproval remains near 60 % and the opposition still leads on security and healthcare.
- Colombian markets are not pricing in a shift to a pro-investment administration, even as the peso stays strong despite fiscal strain and weaker terms of trade.

## BRAZIL - PRESIDENTIAL AND PARLIAMENTARY, 4 AND 25 OCT (TWO ROUNDS)

- Scenarios & risks: Lula's approval leads by ~10 pp, keeping him ahead in both first-round and runoff; no formal opposition ticket, but a Bolsonaro-backed candidate could pull ~½ of the vote, making the race highly polarised with a right-leaning Congress likely.
- Market impact: On 26 Oct markets will react sharply to the winner's fiscal stance—Lula could raise fiscal-discipline worries, while a Bolsonaro-endorsed or centrist win would be viewed as relatively benign for public-finance outlook.

## HUNGARY - PARLIAMENTARY, APR (DATE TO BE CONFIRMED)

- Scenarios & risks: Polls show opposition Tisza up to 10 pp ahead of ruling Fidesz, but the recent electoral-system overhaul favours the incumbents; a Tisza win would ease EU-fund access, whereas a Fidesz victory would keep fund delays and EU-government tensions alive.
- Market impact: The forint will be the primary barometer – a Tisza outcome should boost the HUF by trimming the domestic risk premium, while a Fidesz hold leaves pressure on the currency.

## SOUTH AFRICA - MUNICIPAL, NOV (DATE TO BE CONFIRMED)

- Scenarios & risks: Sparse polling suggests the ANC could lose key urban municipalities to the DA and left-wing MKP—particularly in KwaZulu-Natal—while municipal spending (~10 % of the national budget) limits any real impact on fiscal consolidation.
- Market impact: Election-related uncertainty is likely to raise volatility, and a weak ANC showing could jeopardise its role in the national-unity government, undermining ZAR stability.

## RISK MANAGEMENT IMPLICATIONS

- Focus on Transaction Risk:
  - Exporters would look to **increase hedge ratios** in these countries
  - Importers would **decrease hedge ratios or use more optional strategies** in these countries.
- Focus on Translation Risk:
  - Protecting the value of the company's assets in these countries, especially if some disposals are in the pipeline via **new or larger net investment hedging (NIH) programs**
  - They may also consider **systematic rolling strategies like rolling Collars or Dynamic Hedging Program** in order to reduce the carry cost and optimise hedge performance.
  - Given the cost of carry and volatility in these currencies are quite high, Corporate may want to **adjust the hedging strategies to the corresponding market parameters**. More details below.

How have hedging parameters evolved in the past year?*					Hedging instruments that may make sense
EUR-FX	Spot	1Y Carry Cost	1Y Implied Volatility	1Y 25D Risk Reversal	Hedging instrument
EURCOP	4333	9.9%	14.5%	1.7%**	Capped Collar / Capped Forward
EURBRL	6.27	10.1%	15.4%	2.6%	Capped Collar / Collar
EURHUF	387.36	3.7%	7.7%	1.7%	Forward / Collar
EURZAR	19.12	4.3%	10.4%	1.9%	Forward / Capped Forward

\*Colour coding is based on percentiles versus 1Year historical values. Dark Green: 0-10th Percentile; Light Green: 10-25th Percentile; White: 25-75th Percentile; Light Red: 75-90th Percentile; Dark Red: 90-100th Percentile. \*\*historical data not available. Source: BNP Paribas, Bloomberg as of 12 January 2026.



# Risks to consider: AI bubble bursts

## MONETISATION CONCERNS, CAPEX FUNDING RISKS, ELECTRICITY CONSTRAINTS

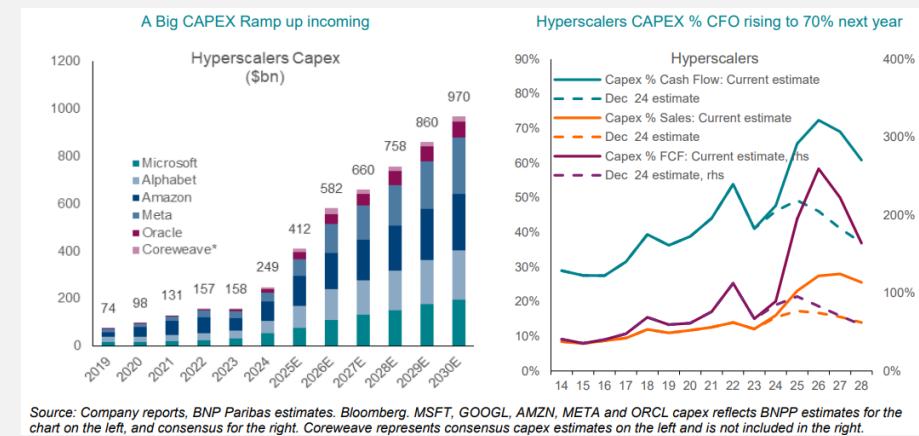
- **Downgrades to 2026 estimates** via sizeable disappointment on monetisation or accelerated depreciation (a risk that didn't materialise in 2025). Barring this, however, if the monetisation debate remains two-way, in a Running It Hot macro environment, we think investors will likely give these stocks the benefit of the doubt.
- **Hyperscaler funding fears:** With CAPEX rising to near 70% of Operating Cash Flow, these companies are becoming more dependent on debt markets. As things stand right now, spreads are tight and issuance is being absorbed. With most of the hyperscalers still having low leverage ratios (ex-Oracle), we suspect that they shouldn't face any funding issues.
- **Open AI funding fears:** A bigger risk we think is how OpenAI funds its capex, given it's a cash burning machine, and if there is a potential IPO. Disappointments here might be the bigger risk. Private credit markets have been an important source of funding for software CAPEX. Software is currently 12% of Private Credit CLOs, 9% of BSL CLOs and 22% of BDC Loans. As things stand, private credit dry powder is forecast to increase, which should help with funding, although this is a risk to monitor.
- **Electricity Constraints:** Another risk is around inputs needed for datacenters, especially electricity constraints. The IEA projects 530 TWh of additional electricity demand driven by datacenters by 2030 (IEA energy and AI report, April 2025). This bottleneck is a key risk to margins. In response we note that Solar and Nuclear stocks are outperforming in the US.
- **From Enablers to Monetisers:** While impossible to predict, at some point, like with the TMT bubble when the Fibrescalers got left behind, the market might shift focus away from the enablers to potential monetisers. We saw a mini version of this trade post DeepSeek early this year. The catalyst for a more sustained change in market leadership might be when the Hyperscalers finally stop increasing CAPEX projections, although we don't see this as a risk in H1 2026.

## MARKET IMPLICATIONS: 2-WAY MONETISATION DEBATE, FAVOURABLE MACRO CONDITIONS

- Despite the aforementioned risks, **our base case remains for the AI cohort to outperform in 2026**. We suspect that the monetisation debate remains two-ways, and in a favourable macro environment characterised by the Running It Hot narrative, the market continues to remain enthusiastic on the prospects of AI.
- Valuations for the AI stocks, while having re-rated, are likely not in a bubble. Returns aren't either. And while the scale of CAPEX is similar to the internet bubble, unlike then, there is high demand justifying the CAPEX. **We do acknowledge the risk that investors might get carried away and re-rate multiples higher through the course of 2026.**

## RISK MANAGEMENT IMPLICATIONS

- **Tail hedges**
  - To protect against an equity crash and its ripple effects, companies may consider implementing or expanding net investment hedges in emerging markets.
  - Increasing positions in safe haven assets such as JPY, CHF or gold may help offset impacts from a global risk-off environment. EUR may also be further supported in such an eventuality.
- **Funding costs may come under pressure**
  - Corporates concerned with a potential bubble burst and a sharp spread widening could consider pre-hedging the systemic component of their credit spreads through iTraxx solutions.
  - In the aftermath, once the central bank put materialises, corporates could use this opportunity to swap their floating debt to lower fixed-rate levels.
- **Listed companies are exposed to an equity rout but also have specific hedging avenues**
  - Companies concerned with an equity bubble burst could consider issuing convertible bonds to benefit from the current equity rally.
  - In the aftermath, share buyback and dilution management solutions would become more relevant.



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