

Talking Heads podcast with Laurent Clavel

Daniel Morris: Hello and welcome to the BNP Paribas Asset Management Talking Heads podcast. Every week Talking Heads will bring you in-depth insights and analysis on the topics that really matter to investors. In this episode, we'll be discussing multi-asset investing. I'm Daniel Morris, Chief Market Strategist, and I'm joined today by Laurent Clavel, Global Head of Multi-Asset for AXA Investment Managers, part of BNP Paribas Asset Management.

Welcome Laurent, and thanks for joining me.

Laurent Clavel: Thank you very much, Daniel. It's a pleasure to be here.

DM: We're getting close to the end of March and I think it's safe to say it's been quite an eventful start to the year. I recall at one point we were quite worried about Greenland, and now that seems a minor consideration in the grand scheme of things.

On the one hand, this isn't the first time you've had a crisis in the Middle East. But as we look at previous episodes, some turned out to be transitory and not very impactful. Others were quite impactful.

I think about the Gulf War in 1990 to 1991, which had quite negative consequences for risk assets as opposed to what didn't happen last year when you had the 12-day war and Israel and the US attacked Iran. The reaction of equity markets to that was positive in the end, but that's clearly not quite where we are now, ~~with a lot of action in the Middle East.~~

You are trying to manage multi-asset portfolios in a volatile environment. Has the crisis affected how your portfolios are taking risks these days?

LC: Well it surely has Daniel. As you rightly said we have a lot of precedents of middle East tensions if not outright conflicts, and a lot of precedence of geopolitical risk and geopolitical tensions, such as the Russian invasion of Ukraine in February, 2022.

We are already integrating the idea that this should play out in a similar fashion as previous geopolitical tensions. Investors are having a hard time selling equities because they expect this to be short-lived.

On top of that, you remember 'Liberation Day' last year when US President Trump announced that he would impose massive tariffs on imports from many countries into the US. Then the US administration turned around quickly on this policy announcement. So once again, investors are at least mindful of the possibility of yet another U-turn and of the risk of being wrong footed.

What we've witnessed so far is increased cautiousness by investors. This is something we monitor a lot – the risk taking of investors, but the lack being able to calculate what is going to happen is preventing the equity market from bouncing back.

One way for the equity market to bounce back would simply be for US policymakers to turn around on their decision to escalate this conflict. What have we done on that basis in our own multi-asset portfolios is to be mindful of not repeating the mistake of last year's Liberation Day.

We did reduce risk, but modestly. We are modestly positive that either we'll see a relatively short-lived impact in financial markets or that the US administration will turn around and focus on something else.

DM: We see oil prices are driving a lot of what's going on in markets. Referring back to what happened in 1990 – the declines in equities mirrored the increase in oil prices.

Perhaps one conclusion is that if we stay around \$100 per barrel, equity markets may stabilise. Or if oil prices continue to rise, that generally would be negative for equities. But that correlation means that your decisions about positioning is down to having a view on a single question, namely whether or not the war escalates and oil prices rise.

LC: You're right. If the conflict de-escalates soon, then the cross-asset market reaction will be to reverse all its recent moves. With oil prices falling, equities would rise, with energy-sensitive regions outperforming, such as Japan, the Eurozone and emerging markets. You would also see the US dollar weaken, and interest rates fall, especially where they have risen the most – typically more so in Europe than in the US.

Conversely, if the conflict drags on – as is the case as we speak – time is playing against the global economy and against price stabilisation. In this polar opposite scenario, we would see equities fall further and the US outperforming.

We focus on investors positioning for capitulation. Once everybody has sold and is pessimistic about future returns then we are back to a positive asymmetry whereby anyone changing their mind would help prices bounce back.

Unfortunately, we find we are not there yet, but again, part of the reason we're not there is that there are still a lot of investors hoping for the better scenario because we could see a US policy U-turn prior to investors capitulating and that would likely be enough to flip the market dynamic.

So in a nutshell, what we try to do in our positioning is not to bet on a single event. Instead, we try to look beyond that and reinforce the overall resilience of our portfolios. We've chosen to be relatively defensive and not over-exaggerate our exposure to a positive scenario.

DM: When you talk about some of the measures taken by the US administration, the theme in all of that is volatility. Certainly we've seen it spike recently with what's going on in Iran from a portfolio management point of view. As CIO, how do you manage that volatility day-to-day?

LC: You're right, we can see a parallel between this year's surprise in the Middle East and the volatility created in 2025 by the changes in US policy, which is interesting because in 2025, market participants and policy observers were expecting the US administration to impose tariffs. [Despite] President Trump teasing his liberation day announcement, financial markets, economists and political analysts were still caught off guard by the magnitude of the tariffs. And again, this year, online betting odds gave more than a 60% implied probability that the US would strike Iran.

It is not so much that the strike on Iran materialised that was so shocking, it is the fact that it's so long, prolonged and intense.

Is there a shift in the volatility regime? Yes, in part because of the shift economic policy, especially from the US, but also it has to do with the shift we saw in 2022 – that interest rates are much higher for longer, and the direction of interest rates is less clear. At the end of 2021, 10-year German bond yields were in negative territory. So, the idea they would move massively to the downside was challenging, whereas today, when they're closer to 3%, you have a lot more potential either way.

It's the same for US interest rates. Back then they were close to 1%, so the volatility in interest rates was much lower. There was this idea that there was a limit to how low they could go. So, in general, I think the regime change in volatility starting in 2022 has a lot to do with interest rates. I find that interest rates are in a way the smartest asset class. The change in the volatility regime in interest rates has driven the cross-asset volatility that we've witnessed since then.

DM: If we take a slightly longer-term perspective look at what's been going on with equity markets, we can say that this current bull market – or the one at least we had until a few weeks ago – started in October 2022, about three and a half years ago. Even before the war started, worries had been piling up about valuations – initially on US tech stocks, but that spread to other sectors and segments with high forward P/Es (price/earnings ratios) at levels that were near previous market peaks. Are you worried about an imminent bear market?

LC: If you take a stock market valuation metric – let's say price/earnings – and you look at the return of the stock market in the following 10 years, the correlation is extremely high, meaning the level of valuation today is very informative of what is going to happen in the next 10 years. If you look at the same kind of relationship over five years, it's decent.

So the fact that the global stock market and the US one in particular are valued quite richly and that the price-earnings ratio is quite high is telling you that in the next five to 10 years, the return of the US stock market will be sub-par. But if you study the same feature over a shorter time horizon, say one year, the relationship has very little informative power. You find that the correlation is gone, the explanatory power is almost zero.

What that says is that it's an incredible guide valuation to future returns over a long-term horizon and thus very interesting in terms of building your strategic asset allocation. With interest rates at their current [quite high] level, and stocks values also quite high, it is therefore reasonable to have a bigger proportion of your portfolio in fixed income products and possibly into [other] alternatives than the global stock market.

But if you're trying to do a flexible multi asset portfolio and tactically play the cycle, valuations are of no consequence and not informative whatsoever over the next 12 months.

Instead, what you have to rely on is the fundamentals on corporate earnings. When corporate earnings are growing, you tend to see positive and above-par returns from the equity market.

In 2023, because of the massive upward shock in interest rates, the consensus was that the global economy – in particular the US economy – was going to head into recession or at least a

very significant slowdown. Then last year, you got this massive shock in US trade policy that created massive volatility. Even though the entire year saw positive returns for risky assets above 10%, for many stock markets around the world, in particular in Europe, but the participation was not huge because of the April 2025 shock.

It's more interesting to look at participation, which has been underwhelming so far, and right now is looking close to capitulation. Such a capitulation, as we said, is very reasonable if we are indeed heading into a global recession. If there is no de-escalation and petrol is heading north of \$100 [a barrel], that is a very credible scenario.

DM: Laurent, you sound relatively relaxed. Nonetheless, there must be some things that keep you awake at night. What are they?:-

LC: One thing that's been bugging us is that, historically, the relationship is that the economic cycle and the business cycle precede the stock market cycle. The idea, in particular in the US, was that if you have a good understanding of how corporates are faring from an earnings growth perspective, you will understand the evolution of the US stock market. And that has worked out pretty well historically, except for shocks.

We discussed the risk of shocks and what you should do about it. That is, when there is no fear in financial markets, you should probably assume that shocks are just as possible as when there is fear and therefore you should buy downside protection when it's cheap, not when you need it.

What I'm slightly concerned with is that we might be in a situation that is quite unique historically – where the relationship is reversed. What I mean is that today the percentage of the net wealth of American households that is in listed equities is [at a] record high. ~~SoSo~~, what we could see is that, instead of having the US stock market collapsing because it is a US recession, a US stock market collapse would instead trigger a US recession through financial wealth effects. Americans would feel poor because stocks are a larger part of their savings. On top of that, the US economy has almost never been so polarised.

Private consumption is based on high income earners who are also those who are the most exposed to the US stock market, which in turn is one of the most concentrated stock markets, so you could see a feedback loop that becomes quite vicious in which the causality is not the usual one. It's not because the economy is doing poorly that the stock market falls, in anticipation of this degradation in economic growth, is free falling. It's instead a shock that leads to the US stock market falling.

That in turn leads to a contraction of US private consumption, and finally you get a US recession. We are living through a time where the US administration is choosing to pile up shocks.

DM: Okay, if I can summarize some of the key points you shared with us. If we go back to the [Middle East] crisis, your expectations are that it will be short-lived or perhaps the US looks for an exit, but naturally still evaluating the news that we see day by day in response to the situation.

You have reduced risk in your multi asset ~~portfolios, but~~ portfolios but anticipate adding back once we get to the end of the crisis. If we think with a longer-term perspective how equity markets are looking, you acknowledge that valuations are high, though this is more relevant from a five to 10-year horizon than necessarily what's likely to happen over the next year.

And finally, terms of your concerns, a bigger sell off in US equities by itself could trigger an economic slowdown through the wealth effect.

Thank you very much for joining me.

LC: Thank you, Daniel, it was a pleasure being there.

DM: That's it for this week's episode of Talking Heads. If you would like more information about our capabilities and multi-asset, please reach out to your asset management contact or checkout ViewPoint, our website for investment insights at Viewpoint.BNPParibasam.com. ViewPoint brings you commentary and analysis in a variety of formats from investment outlooks to asset allocation videos and podcasts to help investors make better-informed decisions.

You've been listening to the BNP Paribas Asset Management Talking Heads podcast with me, Daniel Morris and Laurent Clavel, Global Head of Multi-Asset for AXA Investment Managers, part of BNP Paribas Asset Management. Please do join me next week. Until then, take care.