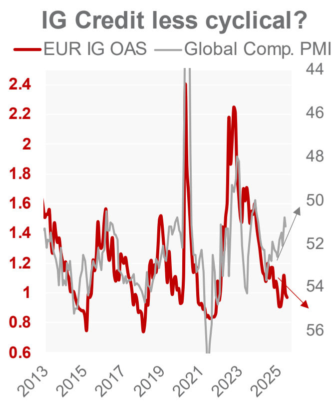
Investment View

‘Liberation’ under probation

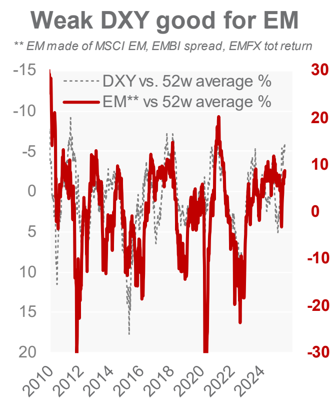
July 1, 2025

‘Investment View’ provides our quarterly macro & market outlook and investment recommendations

- **Global markets have proved remarkably resilient to shocks in Q2, such as ‘Liberation Day’, (fake) Section 899, Israel-Iran. A great deal of that resilience owes to positive economic surprises. Markets now face another challenge: slower economic trends into the autumn. The fading ‘sugar rush’ in manufacturing, the negative impact of tariffs on US consumer purchasing power and the drag from slower earnings growth on capex will all combine to cool growth. On the brighter side, de-escalation from the Q2 shocks also means that a global recession is unlikely.**
- **One of the most consensual views is the bearish dollar one. We agree, but fear it is crowded. We expect volatile FX trading this summer and prefer to express the view via a long position in EM markets, including equities, which have lagged the currency move. Over-weights in Credit are also popular. Still, we stick to our structural view that IG credit increasingly challenges Sovereigns as safe-haven assets – in the context of rising public debt facing stern demographic and political challenges.**
- **Views on rates and equities appear far less consensual. We see bond yields skewed to the downside this summer, as the slowdown brings 10-year Treasury yields to the lower end of the 3.75%-4.75% range. Our duration position remains small, however, in the context of heavy supply (also in Germany) and an impending US inflation bump. We keep a small overweight in equities, but hedging by mid to late July is advised given the poor August seasonals, a likely pullback in US bank reserves and US pricing for near perfection.**



Source: Datastream, GenAM



Source: Bloomberg, GenAM

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‘LIBERATION’ UNDER PROBATION

Vincent Chaigneau

- **Global markets have proved remarkably resilient to shocks in Q2, such as ‘Liberation Day’, (fake) Section 899, Israel-Iran. A great deal of that resilience owes to positive economic surprises. Markets now face another challenge: slower economic trends into the autumn. The fading ‘sugar rush’ in manufacturing, the negative impact of tariffs on US consumer purchasing power and the drag from slower earnings growth on capex will all combine to cool growth. On the brighter side, de-escalation from the Q2 shocks also means that a global recession is unlikely.**
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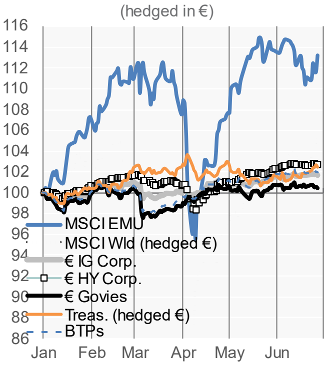
Global markets remarkably resilient to shocks into summer

“What does not kill you makes you stronger.” That is how global markets will feel in early summer. Q2 started with a crisis (‘Liberation Day’, 2 April), and stayed stormy throughout (Israeli-Iran war in June). But financial markets are coming out of it with style. Chart 1 illustrates the remarkable V-shape recovery of equity markets; European stocks have outperformed but have shown signs of fatigue of late. US equities are catching up; the dollar is not (Chart 2). The de-escalation processes from the trade war, Israel-Iran war and the treat of a capital war (to-be-removed Section 899 of the US budget bill) may well provide tailwinds to risk assets in early summer.

Has the surge in policy uncertainty this year had no bearing on the global economy and markets, then? We see signs of softer US economic trends in the summer months. Also, M&A activity has disappointed the hopes associated with a Trump victory (Chart 3), although the past weeks have seen a revival. In contrast EM Hard-Currency debt issuance (Chart 4) as well as High Yield issuance have been buoyant – largely because issuers, fearing a closure of the window, have been opportunistic; this will provide technical support to those markets in 2H25.

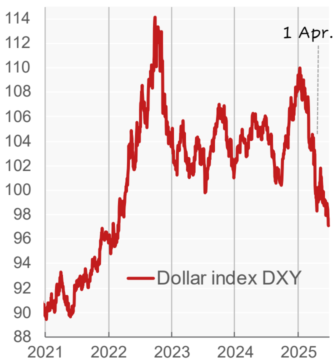
2025 YTD total return

(hedged in €)



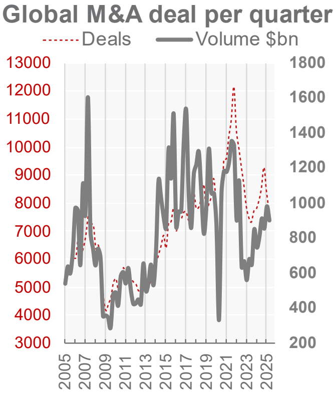
Source: Bloomberg, GenAM

Dollar index falling



Source: Bloomberg, GenAM

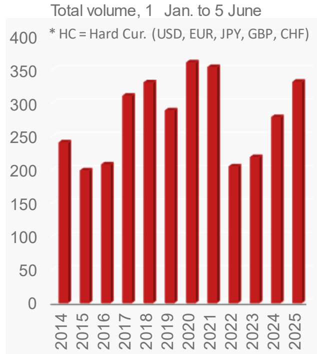
Global M&A deal per quarter



Source: Bloomberg, GenAM

YTD EM HC* bond sales

Total volume, 1 Jan. to 5 June



Source: Blmoomberg, GenAM

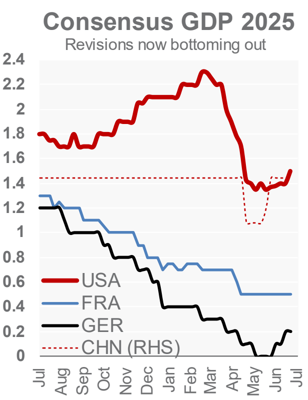
Soft patch ahead, not a hard one

Global economic slowdown in the coming months likely to prove temporary

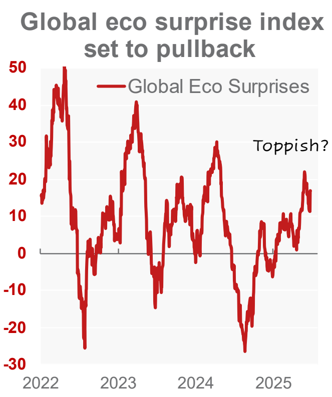
Global economy weathering the storm. 2025 consensus growth expectations have been slashed, especially in the US since 'Liberation Day'. Those revisions are now bottoming out. We would not exaggerate this fresh turn, however. Economic data has surprised positively in the spring, in part thanks to the 'sugar rush' from companies front-loading production and exports before higher US tariffs become effective. This boost is now reversing, and so are economic surprises. Leading indicators incl. orders/inventories are pointing towards softer manufacturing trends in the summer. US households' fears may be exaggerated, yet real disposable income is slowing, and the tariffs will only make this worse in the coming months, eating into purchasing power. Residual policy uncertainty and slower profit growth, already evident in the US NIPA profits for Q1, should also cap capex. Expect no offset from China, as the fiscal impulse looks toppish, so does policy-induced consumer spending. The German fiscal bazooka is a significant boost to confidence, and eventually demand, yet we also expect a temporary slowdown in the euro area, after a strong Q1.

We look for at most two 2025 Fed cuts this year

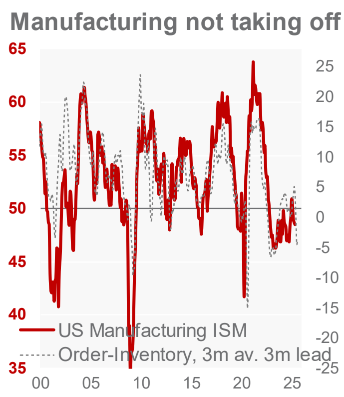
Will the soft patch embolden central banks? The Fed faces a tricky situation, with US tariffs set to derail the firm disinflation process and cause a price bump. We estimate that the average US tariff rate has surged from 2.5% in 2024 to about 15% now, subject to arrangements following the soft 9 July deadline. We look for at most two 2025 Fed cuts from September onwards, and one more from the ECB. This is well priced already, with risks skewed towards disappointment from the Fed (2.5 cuts priced in for 2H25).



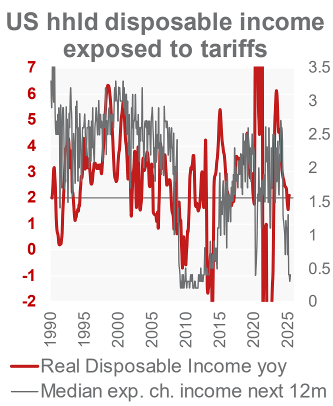
Source: Bloomberg consensus, GenAM



Source: Citi, Bloomberg, GenAM



Source: Bloomberg, GenAM



Source: UoM survey, BLS, GenAM

Policy desynchronisation creates investment opportunities

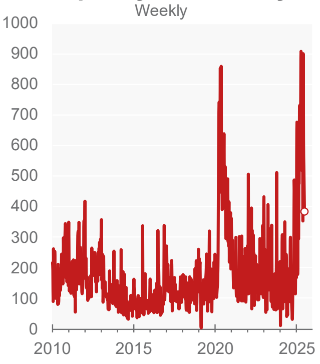
Attack on multilateralism and globalisation leading to a less synchronised global policy environment

Policy uncertainty off the peak. Policy uncertainty remains very elevated but has retreated from the May peak (that even exceeded levels seen at the inception of the pandemic). Investors are also getting used to the President Trump's harsh negotiations tactics and policy turns. The 9 July tariff deadline may see further ructions, though we assume such deadlines are not hard and can be extended. More fundamentally, Trump's attack on multilateralism and globalisation will lead to a less synchronised global policy environment, creating cross-country opportunities. Tariffs for instance are seen causing a greater stagflationary bump in the US than elsewhere. FX moves have deepened the inflation schism, as the dollar pullback will raise US prices. Indeed, currencies have not adjusted along the usual playbook of changing terms of trade (a tax on imports is usually partly absorbed by a depreciation of the exporting countries' currencies). Although the strong dollar policy has not been officially abandoned, investors have heard Trump's complains about excessive dollar strength undermining the US competitive position. The second chart below shows

IG Credit competing with Government bonds for safe-haven status

how EUR/USD has decoupled – at least temporarily – from the EUR-USD rates differential. Treasuries remain the anchor of the global bond market, but the beta of 10-year Bund yields to 10-year Treasury yields has dropped to well below historical average (third chart). Remarkably, credit spreads have remained very tight, even as the global composite PMI is pointing to an economic slowdown (right-hand chart), vindicating our conviction that Investment Grade Credit increasingly competes with High Grade sovereigns as a safe haven. Globalisation may be in retreat, but the strain on the public finances of G7 countries remains a common challenge.

US policy uncertainty

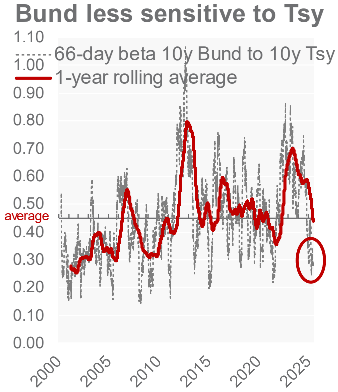


Source: Baker, Bloom & Davies, BBG, GenAM

EUR/USD vs. rate diff.

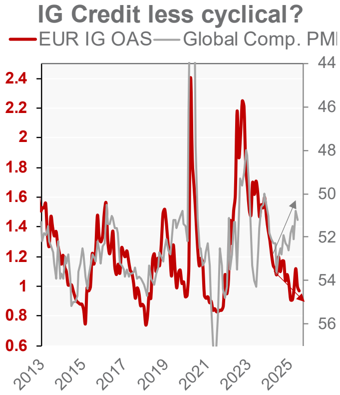
Source: Bloomberg, GenAM

Bund less sensitive to Tsy



Source: Bloomberg, GenAM calculations

IG Credit less cyclical?



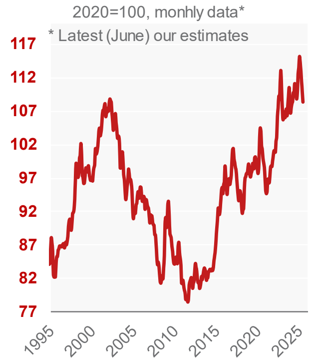
Source: Datastream, GenAM

Lots of downside space for the dollar, but we mind the crowd

FX volatility set to rise given crowding of short USD positions

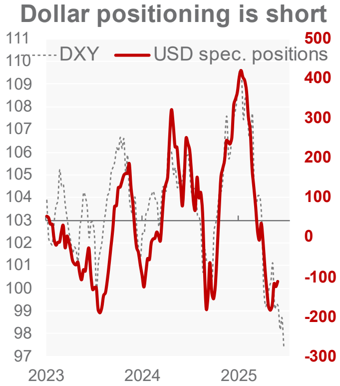
Dollar starting from a very rich level. The Fed's broad dollar index is down 7.3% year to date. It started from a very elevated valuation level (left-hand chart) and is still dear. We stay bearish the USD, both structurally (valuation, Administration's stance, reserve diversification, competing regional monetary arrangements etc.) and cyclically (US slowdown over the next 3-6 months).

Real Effective US Dollar



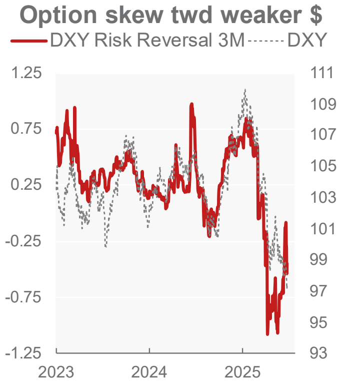
Source: BIS, Bloomberg, GenAM

Dollar positioning is short



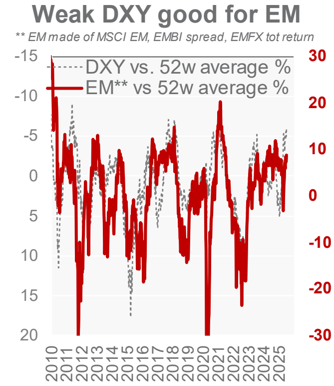
Source: ICE, CFTC, Bloomberg, GenAM

Option skew twd weaker $



Source: Bloomberg, GenAM

Weak DXY good for EM



Source: Bloomberg, GenAM calculations

Positive EM markets, especially local currency debt and equities

However, this is now a very consensual view. Speculative short USD positions are very crowded, and the volatility skew also shows a strong bias towards puts, if not as extreme as in mid to late May (charts above). So we expect a more volatile FX trading, as bearish USD forces, including the trend towards a greater hedging of large USD portfolio positions, meet spells of profit taking. EM markets tend to much benefit from a weak dollar (right-hand chart above combines EM equities, EM Hard Currency spreads and EM currencies). That has been the case again this year, though EM outperformance has somewhat lagged the dollar move. We stay generally positive on EM markets, especially local currency debt and equities.

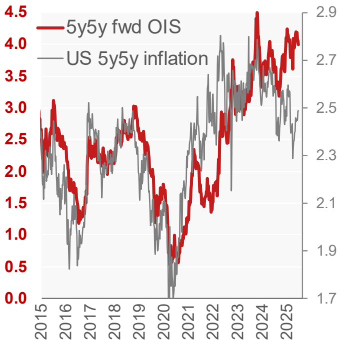
Bond yields tactically skewed to the downside, if just so

10-year Treasury yields skewed towards the lower end of their 3.75%-4.75% range

No strong market consensus on bonds. Based on our discussions (internal, with clients and brokers), views on bonds appear rather diverse. We lean on bond yields pulling back modestly this summer, if only because of slower economic trends – e.g. softer US job creations. US 5y5y inflation breakevens have pulled back (below 2.50%, at the lower end of the 2.30-2.80% range for the past 4 years), but nominal forward OIS rates have not. In other words, real forward rates have increased. Likewise, 10-year TIPS (real) yields, now around 2%, appear somewhat generous unless productivity trends accelerate, and/or term premia continue to rise. Arguably, term premia have increased but are still not high by historical standards (third chart below). The 5y3m OIS rate, still above 3.60%, is less attractive than in May when it touched 4%, but is still high relative to the Fed's medium-term dot at 3%. Treasuries have already cheapened massively in asset swaps. In all, we see 10-year Treasury yields (currently ~4.20%) skewed towards the lower end of their 3.75%-4.75% range.

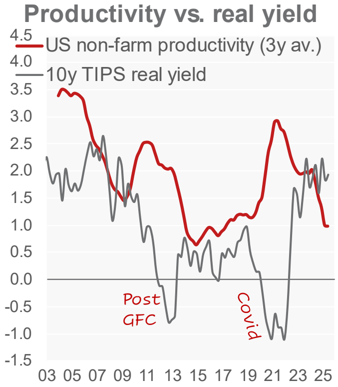
Surging Fwd $ real rates

Nominal fwd parting ways with fwd inflation



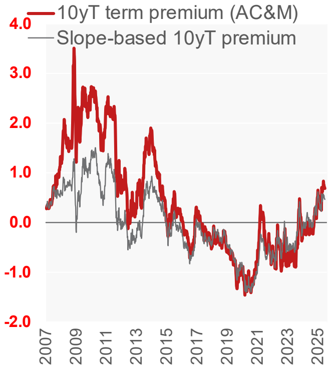
Source: Bloomberg, GenAM

Productivity vs. real yield



Source: BLS, Bloomberg, GenAM

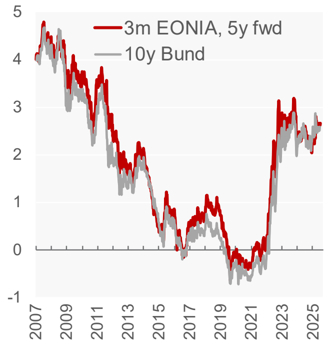
10y UST term premium, %



Source: Adrian Crump & Moench, BBG, GenAM

10y Bund tracks 5y3m ESTR

5y3m=2.78%; neutral rate up post bazooka

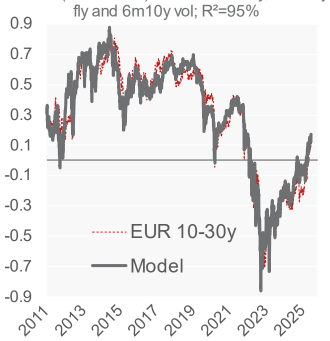


Source: Bloomberg, GenAM

We also recommend a small long duration in EUR, from current 10-year Bund levels just below 2.60%. Conviction is low, in the context of sharply rising supply. Even though extra issuance will target the belly far more than the long end, we retain a bias towards steepening and expect the centre of the curve to outperform the wings.

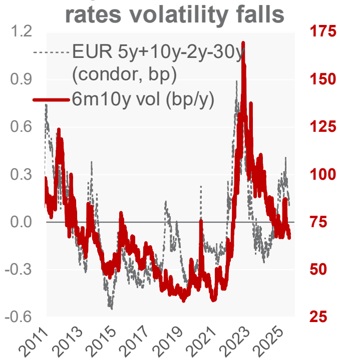
EUR 10-30y steepening

Model (2011-2022) based on 2-10y, 2-5-10y fly and 6m10y vol; R^2=95%



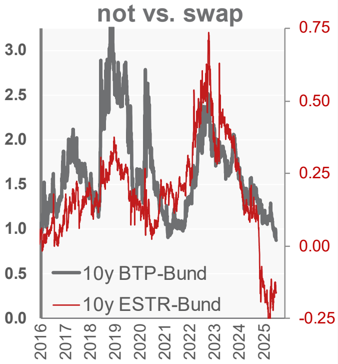
Source: Bloomberg, GenAM

€ belly can outperform as rates volatility falls



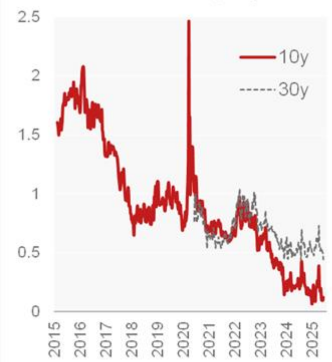
Source: Bloomberg, GenAM

BTP tight vs. Bund, not vs. swap



Source: Bloomberg, GenAM

Microsoft-Treasury spreads



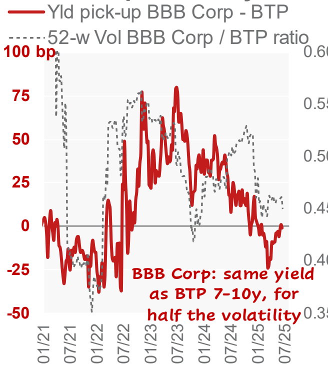
Source: Bloomberg, GenAM

We expect peripheral spreads to stay tight in the context of surging German supply. BTP spreads appear very tight vs. Bunds, but much less so when considering how cheap Bunds have got vs. swaps (3rd chart above). We stay defensive towards OATs

(France), given the difficult political and fiscal environment, and prefer the likes of Finland, Austria and the Netherlands.

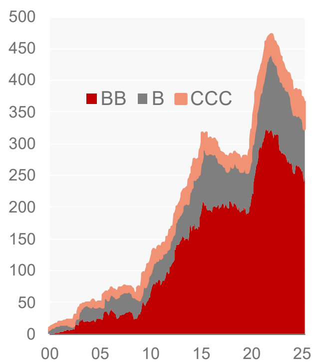
Our views on Credit remain constructive. Spreads are tight, but our structural theme of IG Credit becoming a safe haven amid deteriorating public finances remains

BBB Corp. vs. 7-10y BTP



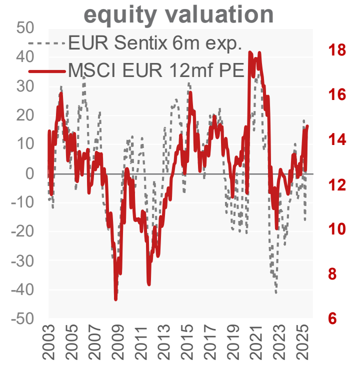
Source: BofA, Bloomberg, GenAM calc.

Face Value EUR HY market



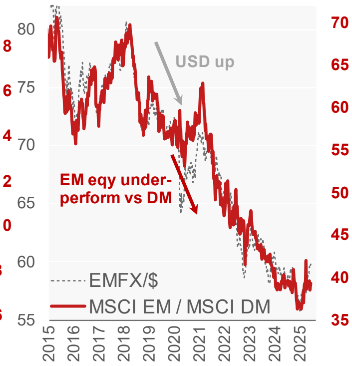
Source: Bloomberg, GenAM

Eco sentiment drives EUR equity valuation



Source: Sentix, MSCI, Bloomberg, GenAM

USD/EMfx v. MSCI EM/DM



Source: DB, Bloomberg, GenAM calculations

alive and well. Investors get a similar yield in EUR BBB Corporates than in 7-10y BTPs, for less than half the index volatility. We also recommend a long exposure in HY, if a smaller one, and note that historical spread comparisons must be adjusted for the improvement in the HY index composition – the share of BBs has been steadily rising (2nd chart above). For those willing to hedge at these tight levels of spreads, we recommend focussing on the iTraxx sub-Financials (see Credit section).

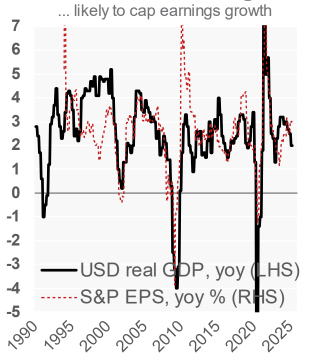
Long IG Credit for the carry; small overweight in HY; hedge via iTraxx sub-Financials

Small overweight in equities; mind the poor seasonals in August. The V-shape rally in equities has left many puzzled; positioning appears neutral. Seasonals are positive in July but more challenging in August, which may coincide with the TGA (Treasury General account) refill draining a few hundred billions in US bank reserves. Although the EA economy will also slow in the summer months, the German bazooka should help sustain sentiment (3rd chart above). EM equity markets have done well but still have some catch-up to do. Our equity positions remain prudent overall as US equities appear priced close to perfection, with forwards implying more than two Fed cuts this year and the consensus assuming a further surge in margins, despite the likely slowdown in profit growth (left charts below).

Small OW in equities, but positive run exposed to poor August seasonals and US pricing for near perfection

US GDP slowing...

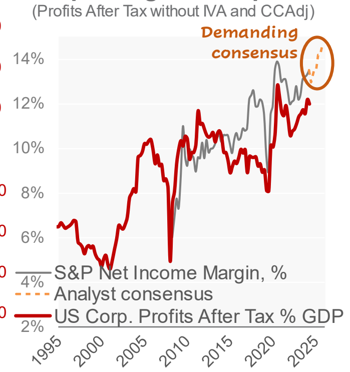
... likely to cap earnings growth



Source:Conf. Board, BBG, GenAM

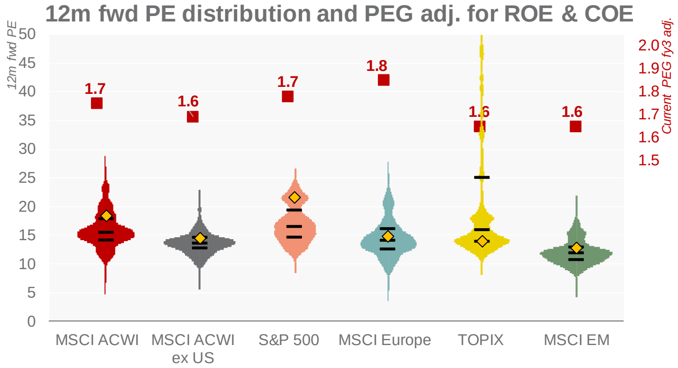
Corp. margins and profits

(Profits After Tax without IVA and CCAdj)



Source: US BEA, BBG, GenAM

12m fwd PE distribution and PEG adj. for ROE & COE



Source: Datastream, GenAM Calculations — Median, 1st Qrt, 3rd Qrt ◆ Last Data

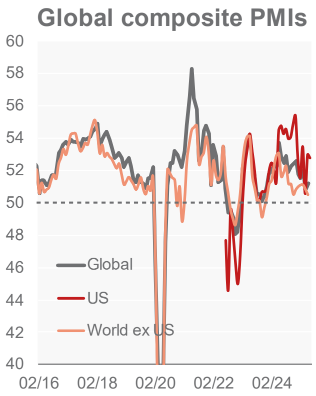
Note: violins show the distribution of 12m fwd PE since 1995 or first available data. ■ = PEG fy3 adj. (higher = expensive): PE at fy3 ('27) divided by expected EPS long-term (3-5 years) growth, adjusted by the ratio Cost of Equity / Return of Equity. COE/ROE signals the ability to produce a return on capital higher than the cost of it.

MACROECONOMIC OUTLOOK

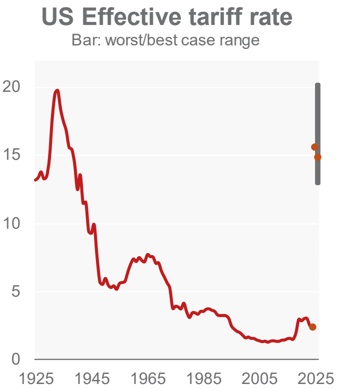
Thomas Hempell, Guillaume Tresca, Martin Wolburg, Paolo Zanghieri

- **The economic fallout from US tariffs and policy uncertainty is still to show up in hard data, notably in the US.**
- **Yet with a trade de-escalation now looking more likely, a recession is even less likely. The headwinds from tariffs are cushioned by tailwinds from resilient labour markets and decent real income growth.**
- **Eased monetary policies and financial conditions, expansionary fiscal policies (US, euro area, China) and a lower oil price will help the global economic momentum later in the year.**
- **China keeps struggling with its ailing property sector and US tariffs, but more decisive policy support will help the economy to only mildly undershoot the 5% growth target this year.**
- **Easing wage growth will contribute to tame inflation rates further. However, the stagflationary impact of US tariffs is set to trigger a temporary inflation spike in the US in H2. By contrast, in the euro area disinflation-ary pressures are likely to prevail while China will keep struggling with entrenched deflationary forces.**
- **Amid the stagflation uncertainties from US tariffs, the Fed is unlikely to resume its rate cut cycle before September. We now expect no more than two 25bp rate cuts in H2 2025 and two further moves in H1 2026, with the risks tilted to less and/or delayed easing. The ECB is likely to stay on hold in July and provide a final cut to 1.75% in September as disinflation progresses further.**

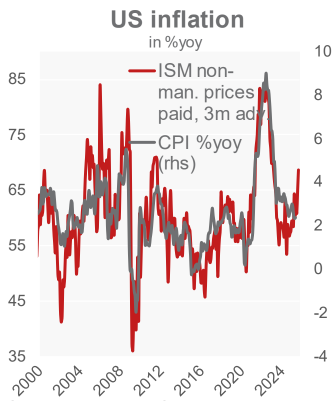
US protectionism keeps weighing on the global economy. The most disruptive tariff announcements ('reciprocal tariffs' and exremely high levies on China) have been paused until July 9 and August 12 respectively. But the current effective US tariff rate is still at around 15%, a sixfold increase compared to 2024. Economic sentiment has already suffered, even if front-running of the duties has temporarily boosted activity in some sectors early in the year. The economic fallout is still to be felt over the further course of the year. Fortunately, however, peak uncertainty is likely behind us after US President Trump has blinked in the wake of market turmoil ensuing after his 'Liberation Day'. While uncertainty about trade deals remains elevated, Trump's need to avoid a stagflationary escalation of his trade agenda (with mid-terms looming in 1½ years) makes us confident that a full-blown escalation into a global trade war and recession can be avoided.



Source: Datastream, GenAM



Source: Yale- The Budget Lab, GenAM



Source: Datastream, GenAM

Source: BLS, GenAm

> The economic fallout is still to be felt over the summer

There are even reasons to be cautiously optimistic about a moderate acceleration of growth over 2026. Labour markets are easing, but remain overall robust, with unemployment rates unlikely to rise by much. Financial conditions have eased thanks to the passthrough of eased moneatary policies and resilient markets. The US budget policy will remain accommodative, while Germany and China are opening the fiscal

Strong labour markets, eased financial condition and accommodative fiscal policies enhance economic resilience

wallets. And with the Middle East now headed for deescalation, lower energy prices will ease import bills for consumers and firms.

The fallout from the historical trade tensions will slow global growth to 2.8% in 2025 from 3.2% seen in the previous two years. A renewed inflation spike on tariffs will likely be mostly confined to the US, while the euro area keeps hovering around its 2% target, Japan sees progress in gradually reflating its economy whereas China remains focused on tackling its deflation threat.

US: tariff-induced slowdown and gradual Fed reaction

Policy uncertainty will persistently weaken growth

Policy uncertainty rose sharply in early April after Trump's announcements of very steep tariffs, but has since retrenched as the US administration paused the most punitive parts and is seeking deals with its main partners. Still, the sharp rise in tariffs and the lack of clarity on what comes next in terms of policies will dent US growth. We have revised down our GDP forecast to 1.5% this year and pencil in only a marginal rebound to 1.6% next year. We do not expect much of a boost from the fiscal budget currently under discussion in Congress as incentives to capex are likely to be swamped by uncertainty. Risks are tilted to the downside, as the impact of tariffs on business activity may be more harmful than expected. As shown by the latest data on sentiment and actual spending, uncertainty could lift precautionary saving.

The latest data show that the labour market is cooling but not worsening significantly, with the unemployment rate standing at 4.2% in April. Yet, the sharp drop in job openings indicates that the labour market is in a "no hire – no fire" phase, where losing a job is difficult, but finding one if fired is not easy. We expect the unemployment rate to inch up to around 4.5% by the end of the year. The descent in core inflation seems to have stalled, as the Core PCE index was still growing at 2.7% yoy in April, and upward pressure from tariffs on goods prices is starting to be felt. Our assumptions on tariffs are consistent with a surge in year-over-year inflation to around 3.5% yoy later in the summer and a year-end rate not below 3% yoy.

Fed in no rush to cut on inflation fears

In the June meeting, the Fed painted a more difficult outlook for both activity and inflation, but the median projection confirms its view that two rate cuts by the end of the year are needed. A significant share of FOMC members (seven out of nineteen) would prefer not to cut rates, in order to minimize the second-round effect of the inflationary shock from tariffs on expectations. For the time being, we stick to our view of two rate cuts this year and another two in 2026.

Euro area: Ingredients for a post-trade war recovery in place

Near-term payback from anticipated purchases ahead of US tariffs in Q1

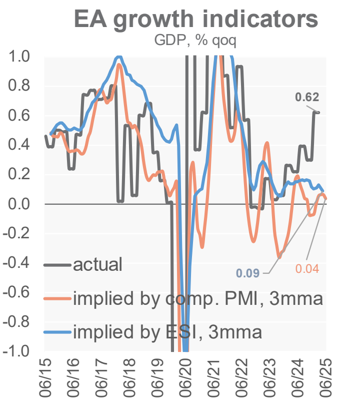
The effect from the US-induced trade war sets the tone for near term economic activity. At the outset of the year frontrunning of US tariffs helped to lift output growth to 0.6% qoq while sentiment indicators suggest stalling activity thereafter. That said, an EU-US trade deal with an average US tariff in the 10-15% range still looks feasible. While clearly worse than the pre-tariff war situation, it would together with fading trade uncertainty allow for a normalization of export activity over the course of the year.

Recovery towards year-end after a trade deal is likely fixed

We see the ingredients for a return to solid growth next year in place. Real wages are increasing, supported by moderating inflation and robust employment, encouraging higher consumer spending. Inflation fell to 1.9% yoy in May and is set to hover around the 2% threshold. The cumulative 200 bps ECB rate cuts continue to ease financing conditions, thereby spurring credit growth. Finally, towards year-end we expect the German fiscal bazooka to start becoming increasingly effective. Especially German growth should also be stimulated by an end of global manufacturing recession. Due to the strong first quarter and German fiscal stimuli, we look for a 2025 growth rate of 1.0% and see annual growth recovering to 1.2% in 2026.

ECB to end easing cycle with a final cut to 1.75%

In May the ECB cut its policy rate by another 25 bps to 2.0%. At current level the key rate is in the middle of what we deem the neutral policy range (of 1.75% to 2.25%) and President Lagarde stated that the ECB was “getting to the end of a monetary-policy cycle that was responding to compounded shocks”. However, the latest macro projections leave room for further policy action as inflation is expected to stay below the 2% threshold until the end of 2026. Moreover, the trade war implies still “high uncertainty”. We continue to expect a final cut to 1.75%, most likely in September, mainly as an insurance against risks related to growth and an externally (e.g. US government bond market) induced worsening of financing conditions. But we deem the hurdle to cut below 1.75% very high now.



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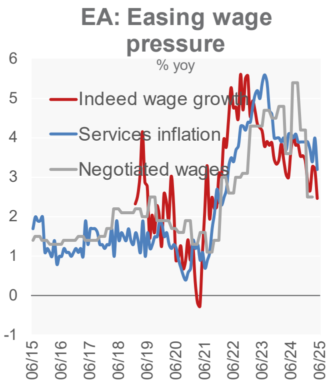

Source:Datastream, indeed, GenAM

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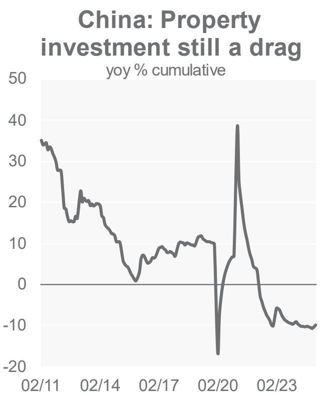


Source: Bloomberg, NBC, GenAM

China: improving outlook with upside risks

Tariffs easing and better data

The ebb and flow of discussions about tariffs has eventually led to a more positive outcome for China, with the effective US tariff rate Chinese shipments declining to around 41%. We have revised our 2025 GDP forecast upwards to 4.5% from 4.1%. While renewed uncertainty cannot be ruled out, the recent dynamic in trade discussions with the US has been positive, with some agreement reached on tariff barriers (rare earths and banned exports). Although the agreement lacks detail, it suggests that the risk of escalation has significantly diminished, with a more balanced risk profile. China has made progress on cutting fentanyl exports, and the US could partially ease the related tariffs. These positive developments have recently coincided with improved activity and sentiment data suggesting that the expected Q2 growth slowdown could be less severe than anticipated. This is good news, but market participants may be disappointed by the lack of an announcement on support measures at the July Politburo meeting. Policymakers will likely continue to ease monetary policy with a further 30 bps of rate cuts, as CNY stabilisation provides leeway. This easing is necessary because, despite the improvement in short-term indicators, deflationary pressures remain strong and the real estate market has yet to recover.

GOVERNMENT BONDS

Florian Späte

- **In an eventful second quarter, yield curves on both sides of the Atlantic ultimately steepened further. Given elevated budget deficits, there is leeway for the trend to continue.**
- **In the third quarter, yields on US and German government bond may still retreat somewhat in the short term. In the medium term, the moderate downward trend in the US is likely to continue against the backdrop of further key rate cuts, while the yield on German government bonds is seen to rise given the brightening economic outlook.**
- **The environment for EA non-core government bonds is likely to remain favourable in the summer quarter. However, further spread tightening of large EA issuers is likely to be moderate given the achieved low levels. Investors should focus their attention on laggards that offer a greater spread tightening potential.**

While the beginning of Q2 was primarily characterised by the trade conflict, developments in the Middle East dominated events in June. As a result, both long-term US and German government bond yields landed roughly in the middle of their Q2 trading range. In contrast, a downward trend prevailed at the short end of the curve, as market participants increasingly anticipate future key rate cuts by the Fed and the ECB considering the improving inflation environment. At the very long end of the curve, however, the persistently high fiscal deficits and concerns about a further growing supply of government bonds dominated the market.

Lower liquidity in summer months can trigger elevated bond market volatility – on balance, sideways movement of yields in Q3 expected

Although the summer quarter is generally rather news-poor, we expect elevated bond market volatility in the coming weeks, not least due to seasonal lower liquidity. Both the upcoming July 9th deadline extension for reciprocal tariffs and political developments in the Middle East have the potential to cause sharp market fluctuations. Fundamentally, however, we forecast 10-year yields on both sides of the Atlantic to move sideways.

US economic data is likely to continue its weaker trend. Although tariff-related inflation is seen to rise somewhat, this should not surprise financial market participants and is unlikely to leave lasting marks on the US Treasury market. Since their peak in May, US 5y3m OIS have fallen by 35 bps to 3.65%. Although we still consider this level fundamentally somewhat too high, we see little further potential in the short term. In our view, short-term key rate expectations are now too aggressive, with more than five rate cuts (135 bps) priced in by the end of 2026 (we expect only 100 bps). A correction should also affect the long end of the curve.

Trend towards increasing term premium has not run its course yet

In contrast, the tax bill expected to be passed by the US Congress shortly will keep fiscal deficits at a high level going forward (although Section 899 (revenge tax) will likely no longer be part of the bill). This will cause the debt-to-GDP ratio and the supply of US Treasuries to continue rising in the medium term. Accordingly, despite the increase in recent months, we see further upside potential for the US term premium. Although the US debt-to-GDP ratio has doubled in the last 15 years, the term premium is still below its previous level. While we forecast yields to move sideways in Q3, the Fed's key rate cut, which we forecast in September, should continue the downward trend in yields. Over the next 12 months, we expect 4.0% for 10-year US yields.

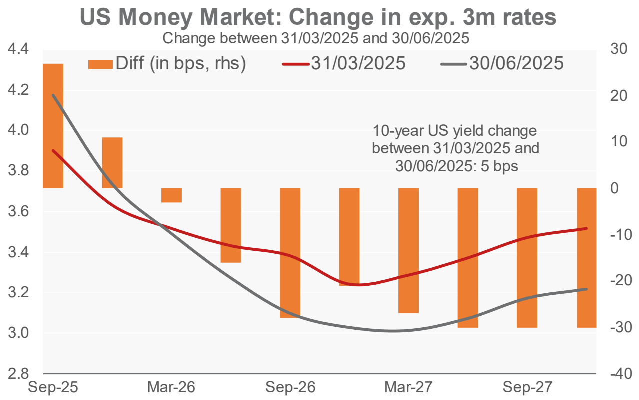
Although we forecast 10-year Bund yields to move sideways in Q3 given the continued weak data and a headline inflation slipping below 2%, we expect rising yields medium-term, in contrast to the US. The German coalition government has approved the budget for 2025. The net debt figure, at approximately € 140bn, is above market expectations. The regular deficit, at over € 80bn, is twice as high as in 2024. With spending of approximately € 60bn on infrastructure and defence already planned for

2025, the new German government is wasting no time in ramping up investments in Germany.

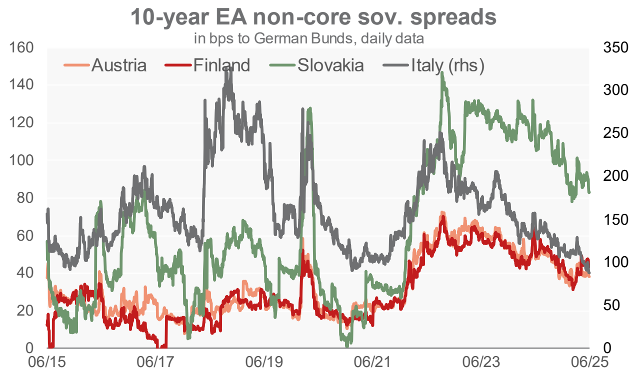
Front-loading of German fiscal bazooka to pave the way to higher long-term Bund yields

In June, the German Finance Agency also adjusted its issuance outlook for Q3 and now intends to raise an additional € 15bn on the capital market. We expect an adjustment of at least a similar magnitude for Q4. We had already raised our expectations in April to a total annual Bund net issuance volume of over € 80bn (Upward revision of EA sov. bond issuance amid economic and fiscal risks). This should then increasingly be reflected in the bond market in the form of higher financing costs for long-term bonds, thus overshadowing the tariff shock of April.

In this environment, we expect further steepening of the yield curves on both sides of the Atlantic, despite the recent steepening. This is all the more true given that the term premium has declined somewhat in recent weeks and only partially reflects the high fiscal deficits, a continuation of the ECB's QT, and a further decline in the convenience yield. Steeping trades are likely to perform well even in a scenario of disappointing trade negotiations (which is not our base scenario).



Source: Bloomberg, GenAM



Source: Bloomberg, GenAM

Continued outperformance of EA non-core government bond markets

Stable environment for EA non-core gov. bond markets to continue – focus on lagging bond markets recommended

EA non-core bonds showed their stability in Q2 despite the tumultuous developments. Issuance activity is progressing well and around 60% of the expected annual volume is already placed on markets. Contrary to other bond markets, even long-term bond issuances are meeting robust demand. Overall, spreads narrowed somewhat, with Italian BTPs once again performing particularly well. With a spread of less than 90 bps over 10-year Bunds and only 20 bps over 10-year OATs, multi-year lows were reached. Given the levels reached, however, we now consider the potential to be largely exhausted. Nevertheless, EA non-core bonds are likely to outperform EA core bonds in Q3 due to the higher carry.

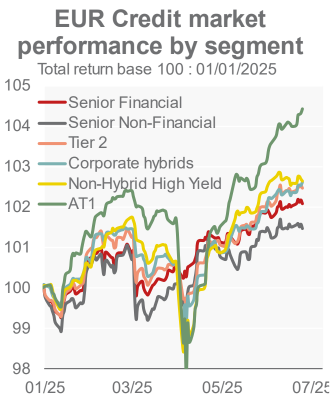
We recommend that investors now focus more on laggards that still have some spread-tightening potential. We consider Finnish, Slovakian, and Austrian bonds attractive. Due to the disappointing fiscal and/or growth trends of recent years, spreads are still above the long-term lows. Budget deficits are likely to decline in the coming years, and the relative weak growth (Finland, Austria) should also be overcome in the medium term. The good ratings (Aa1, AA+) for Finland and Austria act as a cap and is likely to limit a possible spread widening in an adverse scenario.

CREDIT

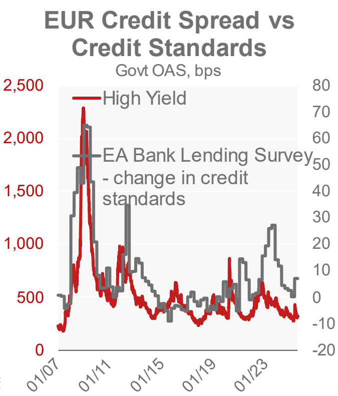
Elisa Belgacem

- **Maintaining Long Credit Exposure into Summer: We are increasing our long investment grade and retaining a small long high yield position amid lower recession risk. Defaults are expected to remain under control in a non-recession scenario, at below 4% in Europe and below 6% in the US. Strong demand is anticipated to continue despite relatively rich spreads. We favour cash over CDS as volatility is expected to remain lower.**
- **Valuations Are Stretched—But Can Stretch Further: Both IG and HY spreads are rich relative to historical norms, yet we believe this is justified. Private sector leverage has declined post-COVID, enhancing credit quality relative to sovereigns. We therefore maintain our structural overweight in credit versus government bonds.**
- **Default Rates to Normalize, Not Spike: Defaults are currently aligned with long-term averages across the U.S. and Europe. While U.S. defaults have historically risen more sharply, we view EU HY as structurally more resilient—underpinned by a creditor-friendly insolvency regime and a more defensive sector composition.**
- **Favouring EU Credit Over U.S.: Although U.S. HY has traditionally exhibited higher volatility, this pattern has reversed since the onset of the Ukraine war. With U.S. policy uncertainty rising, we expect EU HY to regain its structural spread advantage, supported by more stable fundamentals and investor positioning.**

Shrinking Supply Meets Steady Demand: Record-high issuance in IG credit has marked the first half of 2025, with the surge in new deals met by robust demand. Notably, several transactions—particularly in riskier segments like subordinated



Source: Bbg, BofAML indices, GenAM



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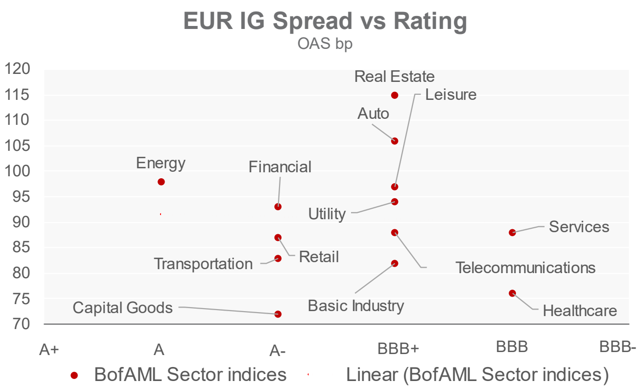


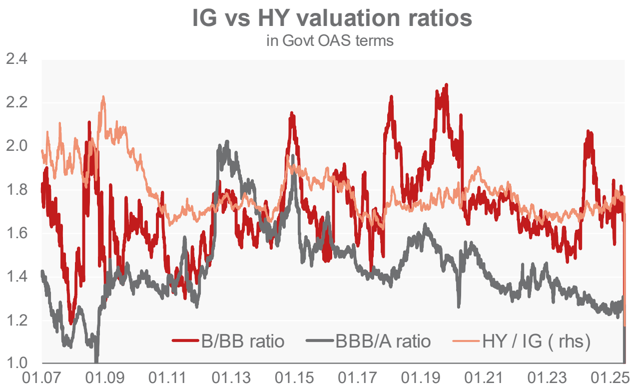
Source:Bloomberg, BofAML indices, GenAM own calculations

bonds—have priced inside fair value, underscoring the strength of technical support. As we approach earnings season, corporate issuers will enter blackout periods, leading to a slowdown in supply. Meanwhile, steady inflows into investment-grade credit since the start of the year suggest that technicals will remain a dominant force.

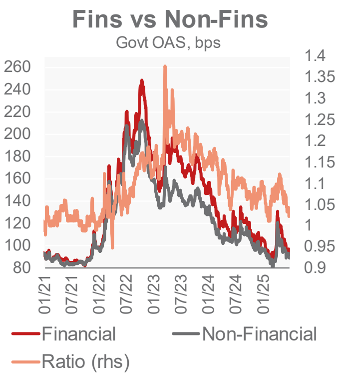
> Strong inflows, driven by all-in yield considerations, are likely to compress credit spreads further in the near term.

Hot summer hot technicals

Default rates in both the U.S. and Europe are currently hovering near long-term averages, suggesting a return to more typical credit conditions. Historically, U.S. defaults have risen more sharply and reached higher levels than in Europe, where the high-yield market benefits from a more protective insolvency framework and a defensive sector mix. This structural resilience supports our view that EU HY remains comparatively safer. On the ratings front, dynamics have diverged: Europe has seen a slight downward trend, while the U.S. has experienced modest upgrades. Although rating agencies typically lag market developments, the absence of recession risk implies limited downgrade pressure, particularly for large corporates at the IG-HY boundary. We expect ratings to remain broadly stable in the near term, reinforcing the case for quality carry in credit portfolios. Investment grade and high yield valuations remain elevated relative to historical norms, yet we believe this richness is justified. Compared to government bonds, private sector leverage has declined meaningfully since the COVID period, enhancing the relative safety of corporate credit. Moreover, while sovereign issuance is expected to trend higher amid fiscal expansion, credit supply should moderate following substantial prefunding activity in H1. This supply-demand dynamic, coupled with strong investor appetite for carry, reinforces our long-standing overweight position in credit versus government bonds.



Source:Source:Bloomberg, BofAML Indices, GenAM own calculations



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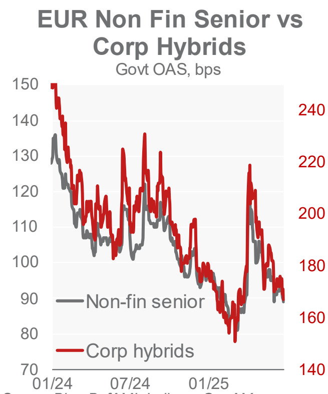


Source:Bbg, BofAML Indices, GenAM

Focusing on quality credit to balance yield and resilience

We generally position for defensive carry, within IG where we prefer BBBs versus single-As in total return terms. IG spreads should remain relatively resilient. With interest rates likely to fall on the back economic uncertainty, it makes sense to look to long-dated IG for enhanced credit returns, as we continue to expect the fallen angels risk to remains very limited despite the challenging environment

However, we believe that HY spreads are expensive but should be resilient near term, thanks the attractive all-in yield continues to attract strong demand. We believe that defaults have peaked already but, and that ratings will only marginally deteriorate, with very limited fallen-angel risks.

> Sub-senior spreads remain tight, but in a low-growth, yield-hungry environment, they could compress further and reach new lows as investors stretch for "safe" carry.

Neutral non-financials versus financial Financials typically have a higher beta than non-financials, but their fundamentals are currently very strong and their exposure to tariffs is lower, hence we keep a neutral stance on financials versus non-financials.

We remain long cash over CDS the latter will remain more volatile than cash, we prefer the latter in the current uncertain market environment.

Subordination risk still preferred to credit risk Similarly, we find subordinated bonds attractive relative to pure high yield, and we continue to prefer corporate hybrids to BB-rated companies and AT1s to single B-rated companies.

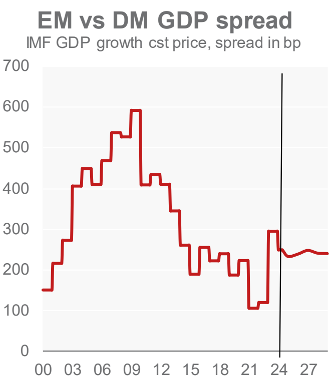
Overweight defensive sectors The cyclicality premium in our view isn't yet large enough to justify buying the dips. The rating agencies have continued to upgrade cyclical companies, but we believe they will reverse course shortly. Hence we have a preference for Utilities, Telcos and also Real Estate.

EM SOVEREIGN BONDS

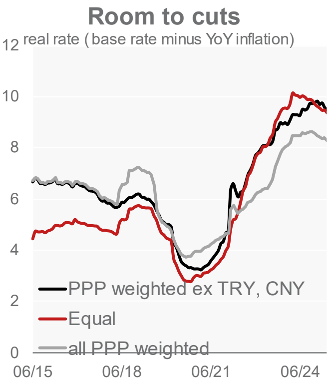
Guillaume Tresca

- **The EM outlook has been improving with the easing of China tariffs and more balance tariff risks. Activity and sentiment have been resilient. The tariff induced slowdown in exports will be mitigated by the USD weakness and central banks'monetary easing.**
- **EM local debt is the best way to express the positive EM view. We are positive on both EM FX and EM rates, but do not rule some short-term FX consolidation. We like the TRY, BRL, EGP and front end rate receivers.**
- **External debt will continue to benefit from a more favourable backdrop of risk appetite and a less uncertain environment that will to short-term spread tightening. We prefer IG over HY.**

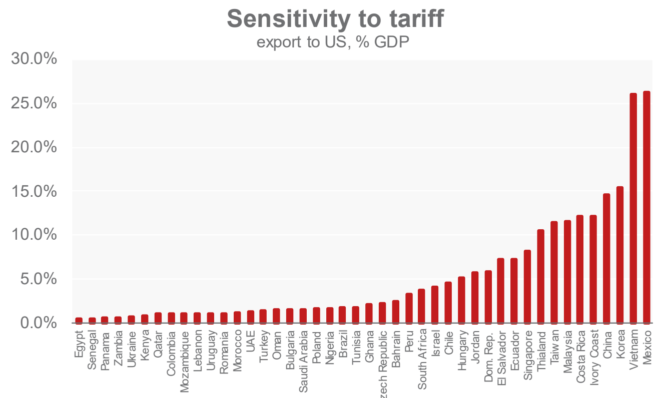
An improving set up. Following the fluctuations in trade talks and tariffs, the outlook for EMs has improved, and EMs are well positioned to benefit from the fading of US exceptionalism, provided that the slowdown in US growth does not escalate into a significant recession. Firstly, in terms of trade, the peak of uncertainty is likely behind. Although concerns could resurface around 9 July, the environment is more supportive and the risks are more balanced than in April. The latest IMF forecasts, computed before China eased tariffs, predicted a slowdown in EM GDP to 3.7% in 2025 from 4.3%, so risks are now likely to be skewed to the upside. In China, the recent dynamic in trade discussions with the US has been positive, with some agreements reached on tariff barriers. We even see some room for easing concerning the fentanyl tariffs. China has indeed delivered the first signs of cooperation.



Source: Bloomberg, IMF, GenAM



Source: Bloomberg, countries, GenAM



Source: Bloomberg, MS, GenAM

Secondly, the rise in tariffs could lead to a slowdown in global trade, which will affect EM exports, those of large Asian exporters. However, we believe that the impact will be manageable. EM macroeconomic fundamentals are stronger than they were during Trump 1.0, particularly external metrics, and the decline of the US dollar will help to mitigate the impact this time. Furthermore, real rates are high, and given the strengthening of EM FXs, central banks have scope to ease monetary policy. Thirdly, the current momentum and starting point are strong. Business sentiment has stabilised. Macroeconomic surprises remain positive, and hard data has held up on average. In fact, exports have surged due to pre-emptive ordering and transshipment. We also saw strong gains in consumer spending in Q1, driven by China, EM Asia and Latin America. Excluding China, real spending increased by 4.1% annually.

EM local debt: in a sweet spot

Positive both on EM rates and EM FXs

Benefiting on all fronts. Local debt is the best way to take advantage of the positive backdrop in EMs, with the weakening trend in the USD being confirmed. In the medium term, we are positive on both EM FX and EM rates, with the possibility of total return reaching 15% this year. Indeed, positioning remains limited, with sparse inflows into the asset class year-to-date and a low foreign share in EM local markets. We expect inflows to gain traction.

Regarding FX, our negative USD outlook should benefit EM FXs, particularly high yielders. We favour the BRL, TRY and EGP. In the low yielders we favour the KRW and TWD. In the short term, we could see some consolidation, given the strong recent performance. However, this will be short-lived and heterogeneous.

We favour EM rates over EM FX given the high level of real rates and the potential for further monetary easing. We favour the short end of the yield curve (Turkey and Brazil), but we tend to avoid the long end due to the risk of higher US term premium.

EM external debt: positive return despite rich valuations

Some short-term spread tightening

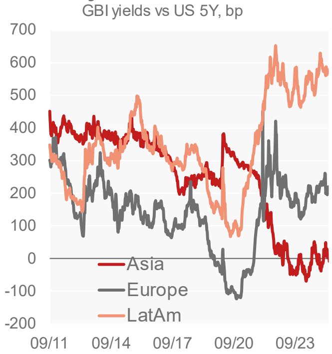
Tighter spreads and preference for IG. External debt will continue to benefit from a more favourable backdrop of risk appetite and a less uncertain environment. We expect some short-term spread tightening. The improved EM outlook should attract inflows from crossover funds, primarily into the IG space. Inflows have been limited so far, but should gain traction. Similarly, seasonality is more positive for spreads due to a lack of issuance during the summer lull. However, we are less constructive on spreads in the medium term, given their current level of richness, both historically and relative to US credit.

We maintain our preference for IG over HY. HY is now expensive, with only value remaining in the distressed area, which is driven by idiosyncrasies. In EM IG, we still favour BBBs, although value is less compelling than before. We like Mexico and Bulgaria, and we are neutral on Romania. Further up the rating scale, AA and A spreads are tight, but they will benefit from the decline in core rates. We prefer Abu Dhabi, Chile to Peru. In HY, we focus on BBs with improving fundamentals, such as Morocco and Serbia. The convergence trade in Western Balkan countries continues to offer value, with the potential for long-term rating upgrades. Colombia has been underperforming, but upcoming elections could make it attractive soon.

In the EUR space, there are still compelling yield opportunities. For long-term investors sensitive to all-in yields, numerous EM EUR bonds can offer a higher (FX-hedged) yield than EM USD bonds. The current median yield pickup for EM EUR bonds over equivalent EM USD bonds is close to 36 bp, which is at the top of the 12-month range. EM EUR IG yield pickup is particularly attractive while in EM HY it is below its long term average.

Local yields still attractive

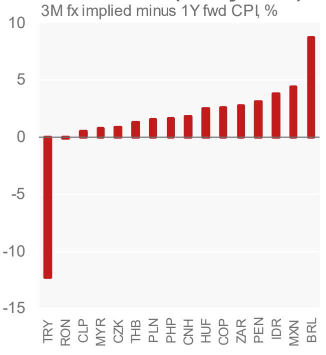
GBI yields vs US 5Y, bp



Source: Bloomberg, GenAM

Room to cut (real yields)

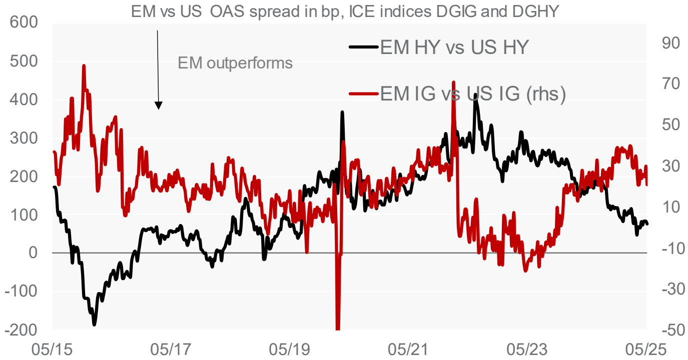
3M fx implied minus 1Y fwd CPI, %



Source: Bloomberg, GenAM

IG is fairly priced, HY is expensive vs US credit

EM vs US OAS spread in bp, ICE indices DGIG and DGHY



Source: Bloomberg, ICE, GenAM

CURRENCIES

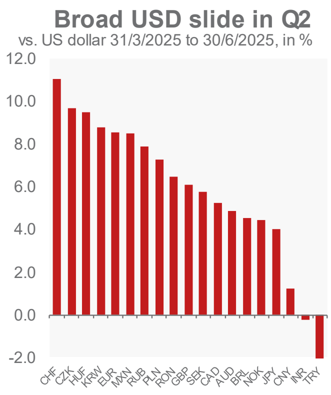
Thomas Hempell

- **The US dollar ended the first half of the year with the biggest slide since 1973 falling by more than 10% amid huge US policy uncertainties.**
- **Mounting cracks in US exceptionalism, the USD's dented safe-haven appeal and the outlook of lower US yields point to more weakness for the dollar which is still fundamentally dear. The sticky US twin deficit (likely to remain stuck at 10% of GDP) is helping neither.**
- **Germany's fiscal bazooka and a move towards European solutions for defence benefit the EUR. Later this year, recovering euro area yields may render further support.**
- **We see further upside for the EUR/USD over the course of the year even if short-term risks are more two-sided after the dollar's recent steep losses and very consensual bearish USD positioning.**
- **Scope for lower US yields and the BoJ's persistent tightening bias points to more downside for USD/JPY. We see some upside for EUR/CHF as the strong CHF is becoming an increasing headache for the SNB as inflation had turned negative.**

> USD sustainably burdened by fading US exceptionalism and US policy uncertainty

The USD is the key FX loser from highly volatile US tariff announcements over the past months. The DXY is down 6.5% over Q2. And while the market turmoil caused by 'Liberation Day's' tariff announcements on April 2 proved short-lived for bond and equity markets, the damage to the dollar is sustained (left charts below). US economic exceptionalism and policy credibility are being eroded quickly. Trump's repeated attacks on Fed Chair Powell (recently culminating in reports that he considers nominating a successor early) and demands for rate cuts add to mounting worries about the central bank's independence to the detriment of the US dollar.

We expect the erosion of the USD to continue further. It was temporarily supported by soaring oil prices amid the Israel-Iran war. But otherwise, the dollar's safe haven appeal has strongly suffered this year. The USD weakened amid the sharp rise in global uncertainty and tariff announcements, which stands in in sharp contrast to



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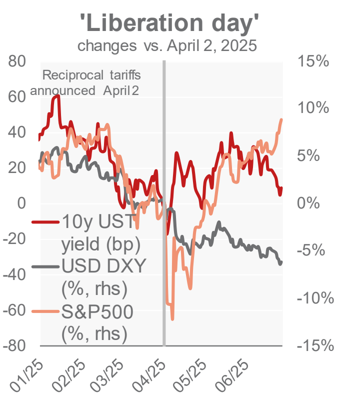

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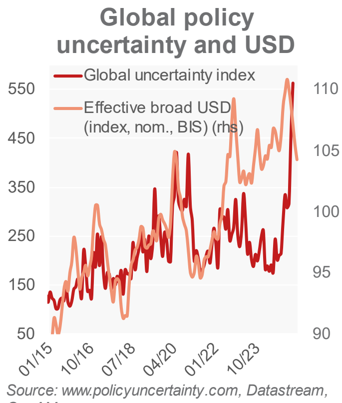
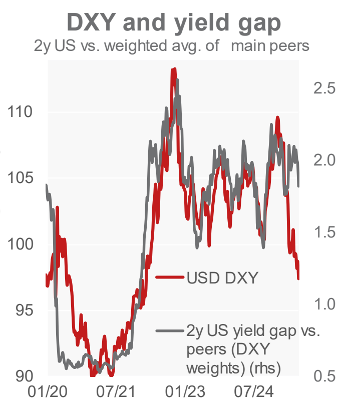


Source: www.policyuncertainty.com, Datastream, GenAM



Source: Datastream, GenAM

Trump's first term (3rd chart). In a worrying episode usually reserved for stressed EM, neither the rise in US yields did help to counter the USD slide (4th chart). Note that the US dollar remains historically dear in trade-weighted terms even after the recent slide (1st chart overleaf). And the financing of the persistently high twin (fiscal and C/A) deficit of around 10% of GDP suggests that investors will demand a further USD discount (2nd chart).

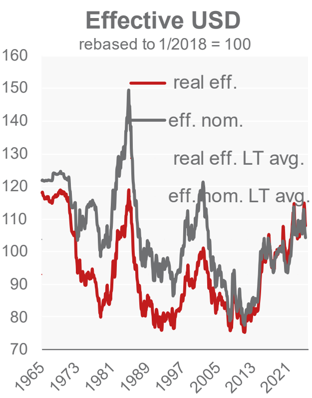
Short-term, the prospects are a bit more two-sided. Following the dollar's fast fall and given very consensual USD bearish positions, there is rising risks of a technical correction. Yet this is unlikely to change the structural case for more USD weakness.

EUR to benefit against a broadly weaker dollar

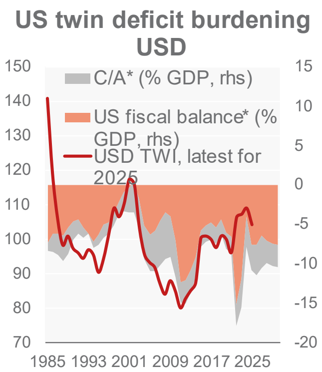
> Tailwinds to the EUR later in H2 from recovering growth and the unfolding German fiscal bazooka

The EUR in particular is likely to benefit. Growth is set to grind to a halt over summer, but eased financial conditions, lower energy prices and a sizeable German fiscal stimulus are likely to lift the EUR/USD lastingly beyond 1.20 into 2026.

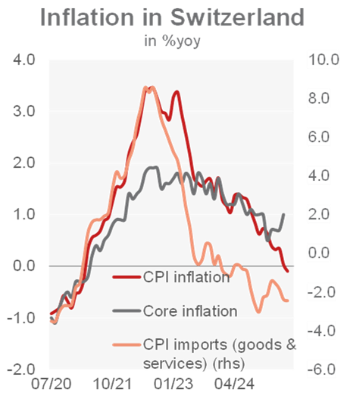
We expect the euro to also gain some ground against the Swiss franc. Not only is CHF exposure incurring a roughly 2% lower carry than the EUR. We also expect the Swiss National Bank (SNB) to lean against a strong franc as Swiss inflation already has turned negative (3rd chart). While outright FX intervention is a less likely tool, given the risks of being labelled a currency manipulator by the US administration, the SNB is still likely to opt for negative rates from September onwards. The fluid situation in



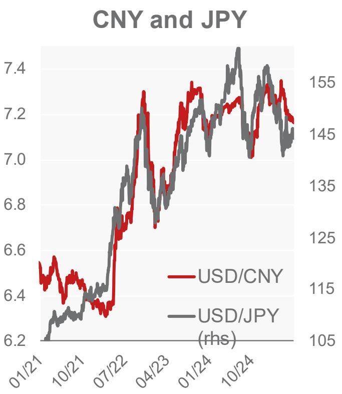
Source: BIS, Datastream, GenAM



Source: Datastream, Oxford Economics, GenAM; *adv. 2 years; 2025ff.: OE forecasts



Source: Datastream, GenAM



Source: Datastream, GenAM

the Mid-East remains a wild card but easing tensions in the wake of the recent Iran-Israel ceasefire, receding US trade uncertainty and a moderate euro area growth recovery later this year may help to partially reverse safe-haven demand for the CHF over the spring.

> JPY to benefit from opposed monetary policy direction and repatration flows

We expect the still deeply undervalued Japanese yen to extend its strengthening trend. International diversification out of the US dollar will benefit the JPY as one of the few relevant reserve currency alternatives. Furthermore, as USD hedging cost fall and domestic bond yields render more attractive returns, repatriation flows and higher USD hedging rates may weigh on the USD/JPY. With mounting signs that Japan has overcome its prolonged deflation episode, the BoJ stands out as the only major central bank defying the broad easing trend elsewhere in the world even if the next BoJ rate hike may be due only early next year amid current tariff uncertainties.

There may be additional tailwinds to the yen also from the Chinese yuan, which we expect to hold up well amid rather resilient Chinese exports and more decisive fiscal stimulus. While we do not have a strong USD/CNY fall in our books, the broad USD weakness should still materialize also against the Chinese yuan, with the USD/CNY likely to approach the 7.0 threshold further. A rise of the powerful CNY would also provide tailwinds for Asian FX – including the JPY, which over recent years has traded in striking synch with the Chinese currency (right chart).

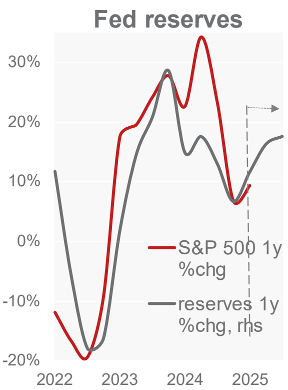
EQUITIES

Michele Morganti and Vladimir Oleinikov

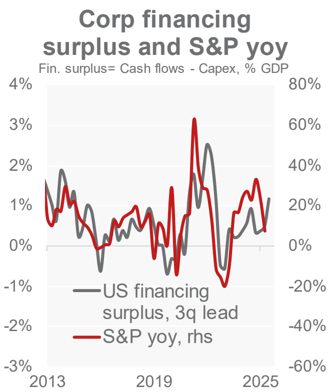
- **Our outlook on equities is mildly overweight (OW), with risks from lingering tariff discussions, macro softness in the next months, and geopolitical uncertainty. We add concerns over the US fiscal deficit and long-term yields.**
- **However, we see compensating factors like the positive trends in money aggregates (M2), Federal Reserve's assets' momentum, and the policy support from Germany and China plus strong market technicals, including high corporate free cash flow, low IPOs, and robust buyback momentum, complement these factors.**
- **The Q1 reporting season showed healthy earnings (EPS) beats, with short-term risks stemming from political uncertainty. We expect softer EPS growth in the US but recovery in the EMU. 2026 should see some recovery for both.**
- **Our machine learning models predict higher performance for equities compared to bonds, with ex-US equity valuations indicating decent total returns (TR) ahead, approximately +10%. We see SPX at least at 6,200 in one year.**
- **We turn tactically neutral on EMU vs US from OW. We still prefer EMU on a twelve-month view, though. OW EU ex-EMU, Japan. OW MDAX & EU small. Tactical OW US Big Tech/AI & AI "phase 4". OW Gold miners & Uranium. Upgrading EMs to OW (resilient US economy, weak USD), favouring India, Poland, Korea, China & CH IT.**
- **EU sectors: keep a cyclical tilt while also focusing on quality defensive domestic exposure. OWs: Banks, Insurance, A&D, Building Products, Construction, Food Retail, Pharma, RE, Semis.**

Mild OW: no recession, supportive fiscal and financial conditions, good market technicals

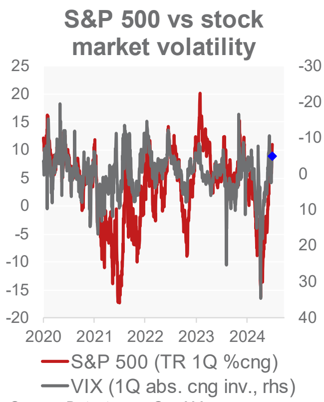
Our outlook on equities is mildly overweight (OW), with risks from lingering tariff discussions, macro slowdown, and geopolitical uncertainty. These are compounded by concerns over the US fiscal deficit and long-term yields. However, the mid-term outlook is constructive, supported by positive trends in money aggregates (M2), Federal Reserve's assets' momentum, and policy support from Germany and China. Strong market technicals, including high corporate free cash flow, low IPOs, and robust buyback momentum, complement these factors.



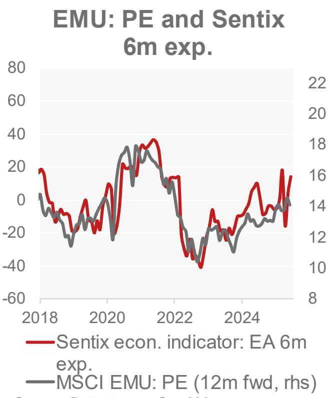
Source: LSEG, GenAM calc.



Source: FRED eco data, GenAM calculations



Source: Datastream, GenAM



Source: Datastream, GenAM

The Q1 reporting season showed healthy earnings (EPS) beats. EPS growth is expected to be softer in the US but to recover in the EMU. Short-term risks stem from political uncertainty. There are signs of economic fatigue in the US, such as worsening financing conditions and swaying ISM New Orders. Year-to-date, EPS forecasts have declined, especially in the EU, mostly due to tariff uncertainty. However, the financing gap (cash flow minus capital expenditures) has recovered. US EPS growth likely peaked in the first half of 2025 and may slow into year-end, recovering thereafter. EA EPS are bottoming from low levels thanks to normalising GDP growth, positive Sentix, a pick-up in capacity utilization, the German fiscal bazooka, improved liquidity

US NIPA profits' growth should slow in Q3 and Q4, recovering thereafter. Our US eps for both 2026 and 2027 are 7% below consensus, on average

conditions, and wage moderation. A warning sign is the strength of the euro. We expect US EPS to grow approximately 8% in 2025 and 9% in 2026; EMU EPS is expected to grow 5% in 2025 and 7% in 2026. We are above consensus only for EMU in 2025 by 3 percentage points, then we remain, on average, below analysts' estimates by 7% for the two indices in 2026-27.

Our two machine learning models predict higher performance for equities compared to bonds, with ex-US equity valuations indicating decent total returns (TR) ahead, approximately +10%. Current positioning remains below average, which is favourable for future performance. For the US, we see the S&P 500 at 6,200 in one year, so a more limited TR vs. EMU.

In light of the cited risks, we have adopted a tactically neutral stance on the EMU index versus the US one, moving from an overweight position. This is also due to less attractive EMU value momentum and tactically cheap US Tech (M7). However, we still prefer the EMU beyond the short term, as well as Japan. We OW the MDAX and EU small-cap stocks, and maintain an overweight position on AI "phase 4" stocks. Additionally, we OW gold miners, uranium and emerging markets (EMs).

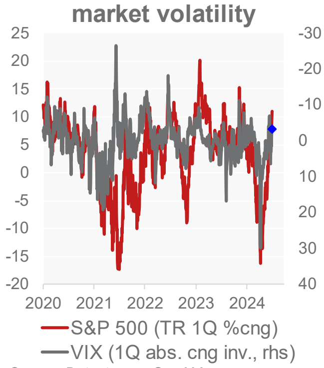
12m targets (as of 30.06.25)

Market Index	CAPE yield gap vs real yield, % gap to avg since 2003	CAPE premium/ discount vs history	PEG3 adj (using FY3 eps and ALTMN)	market multiples, discount to history	composite valuation score (1=best)	GenAM 12m TR
S&P 500	-1.8%	40%	2.2	45%	49	3.9%
MSCI EMU	-1.0%	12%	2.3	17%	42	9.9%
FTSE 100	0.2%	-7%	2.2	5%	34	10.1%
SMI	0.3%	5%	2.1	14%	29	10.3%
TOPIX	0.0%	0%	2.2	-6%	23	10.1%
EM	1.6%	-17%	1.9	8%	21	11.4%
Brazil	0.2%	-21%	2.0	-28%	12	
China	1.5%	-20%	1.7	3%	9	
China IT	0.1%	-25%	1.5	-50%	1	
India	-2.3%	46%	2.5	26%	44	
Korea	0.1%	-7%	1.7	-5%	7	
Poland	2.3%	-17%	1.4	-9%	4	

Source: Datastream, Bloomberg, GenAM calculations

Note: CAPE (cyclically-adjusted PE) = price divided by earnings averaged over a 10-year period adjusted for inflation, excess CAPE yield = = 1/CAPE - (10yr rate - avg inflation over 10yr) = real earnings yield minus real rate, using 10-yr avg for CPI and earnings. Multiples (PE, PB, PCF, DY) are based on 12m fwd estimates; PEG is PE / expected LT EPS growth. PEG adj. (higher = expensve): PEG is modified by the ratio COE/ROE, which signals the ability to produce a return on capital higher than the cost of it. COE = cost of equity = 10yr gov't bond rate +6% mkt risk premium x x country Beta versus MSCI WORLD (monthly returns over the last 10 yrs). Composite valuation score is taken across 50 equity markets and is based on various valuation measures (incl. value gap, market multiples, CAPE, earnings growth and adjusted PEG)

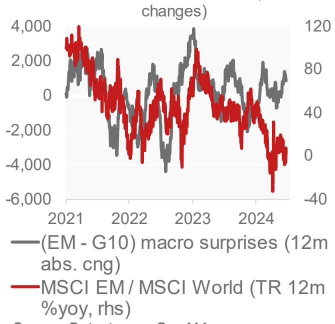
S&P 500 vs stock market volatility



Source: Datastream, GenAM

Emerging markets and macro surprises

MSCI EM TR vs MSCI World (12m changes)



Source: Datastream, GenAM

EMs: OW due to fading US exceptionalism, weaker USD, plus low positioning and attractive valuations

EMs are attractively valued, with multiples at a discount of 36% and 9% vs US and EMU. Investors' positioning is low, and macro surprises show some decent positive momentum. The recent de-escalation in trade from April peak is a positive factor, while resilient economic fundamentals largely support earnings. China's macroeconomic momentum has stabilised, and there is renewed alignment between the government and the tech sector, with increasing signs of emerging global tech leadership. Within the EM space, we favour China and China IT (undervaluation and fiscal support), India (solid growth and less tariff risk), Korea (undervalued with ongoing reforms), and Poland (solid macro conditions, rate cuts, and undervaluation).

For the EU sectors, we maintain a cyclical tilt while also focusing on quality defensive/domestic exposure. Our overweight (OW) positions include Banks, Insurance, Aerospace & Defense (A&D), Building Products, Construction, Food Retail, Pharmaceuticals (Pharma), Real Estate (RE) and Semiconductors (Semis). Trade tensions and the depreciating dollar continue to support relative returns outside of the US, adding value to domestically-focused defensive sectors. We expect macro momentum to decelerate slightly in the next months. We have moved the Auto sector to underweight (UW), favouring other high beta sectors like Banks (more domestic), and Semiconductors (good revisions). Additionally, we are tactically neutral on Energy due to oil price volatility.

ASSET ALLOCATION

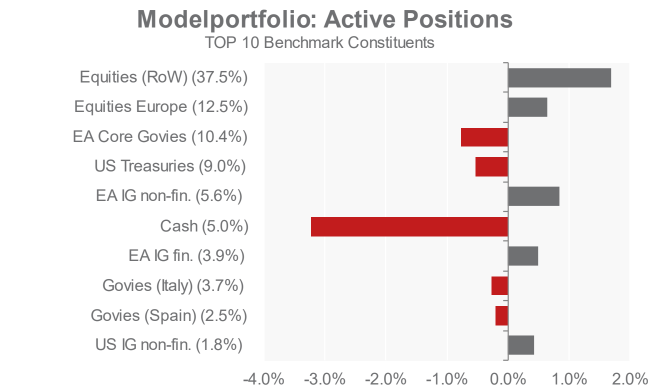
Thorsten Runde

- **Our last quarter's recommendation to reduce the tactical risk appetite was made under the impression of rising recession fears and prevailing uncertainty in the markets given the back and forth in US tariffs in the aftermath of the 'Liberation Day'.**
- **In the meanwhile, Trump has blinked and paused his most disruptive tariffs helping to curb recessionary tail risks. Even if policy uncertainties remain exceptionally high, trade de-escalation appears more likely now, mildly improving the outlook for risk assets.**
- **With risks tilted to less and/or delayed easing, we see US and EA yields skewed to the downside short-term, given the weakening economic data even if central banks have turned more reluctant in cutting rates.**
- **We recommend to prudently rebuild risk positions by slightly increasing our OWs in Equities and HY Credit, also given the positive July seasonals. We increase our OW in IG Credit given its growing rivalry to Govies as a safe-haven. In turn, we stay underweight in Govies that suffer from rising public debt and take a moderate long duration here. We are structurally bearish on the USD amid fading US exceptionalism and mounting US policy risks.**

Despite the Israel-Iran war contributing to uncertainty induced by the back and forth around US tariffs, it is still not yet reflected in the hard economic data. A recession is less likely as chances for a trade de-escalation have risen. Eased financial conditions and supportive fiscal policies in the large economies should support economic activity in the further course of the year. That said, the US exceptionalism is fading, and the US policy risks are mounting. Thus, although the outlook for risk assets has improved somehow, the rebuilding of pro-risk stance should be done with prudence.

In that sense, we just slightly increase our OWs in Equities and HY Credit. We stay overweight IG Credit given its improved appeal against the backdrop of lower cyclical risks and its growing importance as a safe-haven rival to Govies. We are neutral between non-fins and fins, as the latter compensate their higher expensiveness by a lesser exposure to tariff risks. We stay underweight in Govies that are burdened by concerns about elevated fiscal deficits. Given the weakening economic data we see yields slightly tilted towards the downside and thus take an overall moderately long duration. We are bearish on the USD that failed to recover along with global risk assets after the correction following the 'Liberation Day'. Fading US exceptionalism, mounting US policy risks, and the outlook of lower US yields point towards a further weakening.

Source: GenAM



Source: GenAM; Benchmark weights in parentheses

FORECASTS

Macro Data

Growth	2024	2025 forecast	2025 Δ vs. cons.	2026 forecast	2026 Δ vs. cons.	2027 forecast
US	2.8	1.5	0.0	1.6	0.0	1.9
Euro area	0.9	1.0	0.0	1.2	0.1	1.4
Germany	- 0.2	0.3	0.2	1.5	0.3	1.4
France	1.0	0.5	- 0.0	0.8	- 0.1	1.4
Italy	0.7	0.3	- 0.2	0.6	- 0.1	0.5
Non-EMU	1.0	1.2	0.0	1.3	0.0	1.5
UK	0.9	1.0	0.0	1.0	0.0	1.5
Switzerland	1.4	1.3	0.2	1.4	0.0	1.2
Japan	- 0.1	0.5	- 0.3	0.6	- 0.1	0.6
Asia ex Japan	5.0	4.6	0.0	4.6	0.1	4.5
China	4.8	4.5	0.0	4.3	0.1	4.0
CEE	3.3	2.0	- 0.2	2.0	- 0.2	2.3
Latin America	1.8	1.8	0.0	1.9	0.0	2.5
World	**3.2**	**2.8**	**- 0.0**	**2.9**	**0.0**	**3.0**

Inflation	2024	2025 forecast	2025 Δ vs. cons.	2026 forecast	2026 Δ vs. cons.	2027 forecast
US	2.9	2.9	- 0.1	2.5	- 0.3	2.2
Euro area	2.4	2.0	- 0.0	1.8	0.0	2.0
Germany	2.3	2.1	- 0.1	1.9	- 0.1	2.0
France	2.1	1.2	0.1	1.5	- 0.1	2.0
Italy	1.1	1.8	- 0.1	1.8	0.1	2.0
Non-EMU	2.3	2.4	0.0	1.8	- 0.2	1.8
UK	2.5	3.2	0.0	2.1	- 0.3	2.0
Switzerland	1.4	0.2	0.0	0.6	0.0	0.7
Japan	2.7	2.8	- 0.0	1.5	- 0.1	1.8
Asia ex Japan	1.8	2.0	0.5	2.1	0.2	2.2
China	0.4	0.5	0.3	1.0	0.2	1.5
CEE	19.1	14.3	1.5	9.0	0.3	7.3
Latin America	4.7	4.7	0.0	3.9	0.0	3.2
World	**4.0**	**3.4**	**0.3**	**2.9**	**0.0**	**2.7**

Regional and world aggregates revised to 2015 IMF PPP weights; Latin America Inflation excluding Argentina and Venezuela

Financial Markets

Key Rates	Current*	3M Forecast	3M Forward	6M Forecast	6M Forward	12M Forecast	12M Forward
US (upper bound)	4.50	4.25	4.05	4.00	3.62	3.50	3.12
Euro area	2.00	1.75	1.79	1.75	1.67	1.75	1.68
Japan	0.50	0.50	0.52	0.50	0.63	0.75	0.77
UK	4.25	4.25	3.94	4.00	3.67	3.50	3.38
Switzerland	0.00	-0.25	-0.12	-0.25	-0.18	-0.25	-0.16
10-Year Gvt Bonds							
US Treasuries	4.27	4.25	4.31	4.10	4.35	4.00	4.44
Germany (Bunds)	2.58	2.55	2.65	2.60	2.70	2.70	2.79
Italy	3.50	3.40	3.54	3.50	3.62	3.60	3.77
Spread vs Bunds	*93*	*85*	*89*	*90*	*92*	*90*	*99*
France	3.26	3.25	3.32	3.30	3.38	3.45	3.50
Spread vs Bunds	*69*	*70*	*67*	*70*	*69*	*75*	*72*
Japan	1.42	1.45	1.52	1.50	1.58	1.55	1.70
UK	4.49	4.45	4.53	4.35	4.56	4.25	4.65
Switzerland	0.42	0.40	0.43	0.40	0.46	0.45	0.52

**3-day avg. as of 27/06/25*
***ICE BofA (OAS)*

Credit Spreads**	Current*	3M Forecast	3M Forward	6M Forecast	6M Forward	12M Forecast	12M Forward
EA IG Non-Financial	90	85		85		85	
EA IG Financial	93	90		90		90	
EA HY	318	305		305		305	
EM Sov. (in USD)	227	215		230		240	
Forex							
EUR/USD	1.17	1.18	1.18	1.19	1.18	1.21	1.19
USD/JPY	145	143	144	141	142	135	140
EUR/JPY	169	169	169	168	168	163	167
GBP/USD	1.37	1.39	1.37	1.38	1.37	1.41	1.37
EUR/GBP	0.85	0.85	0.86	0.86	0.86	0.86	0.87
EUR/CHF	0.94	0.94	0.93	0.95	0.93	0.96	0.92
Equities							
S&P500	6.135	6.165		6.110		6.200	
MSCI EMU	179.5	180.0		183.0		189.5	
TOPIX	2.809	2.800		2.880		2.990	
FTSE	8.751	8.740		8.920		9.220	
SMI	11.914	12.000		12.360		12.620	

Forecast Intervals

3-Months Horizon

		Lower	Mean	Upper
10-Year Gvt Bonds	US Treasuries	3.75	4.25	4.75
	Germany (Bunds)	1.80	2.55	3.30
	UK	3.78	4.45	5.12
	Switzerland	0.06	0.40	0.74
Credit Spreads*	EA IG Non-Financial	73	85	97
	EA IG Financial	76	90	104
	EA HY	262	305	348
	EM Sov. (in USD)	190	215	240
Forex	EUR/USD	1.15	1.18	1.21
	USD/JPY	138	143	148
	GBP/USD	1.37	1.39	1.41
	EUR/CHF	0.92	0.94	0.96
Equities	S&P500	5.853	6.165	6.477
	MSCI EMU	171	180	189
	TOPIX	2.671	2.800	2.929
	FTSE	8.395	8.740	9.085
	SMI	11.449	12.000	12.551

ICE BofA (OAS)

12-Months Horizon

		Lower	Mean	Upper
10-Year Gvt Bonds	US Treasuries	2.92	4.00	5.08
	Germany (Bunds)	0.92	2.70	4.48
	UK	2.78	4.25	5.72
	Switzerland	-0.43	0.45	1.33
Credit Spreads*	EA IG Non-Financial	59	85	111
	EA IG Financial	62	90	118
	EA HY	217	305	393
	EM Sov. (in USD)	187	240	293
Forex	EUR/USD	1.15	1.21	1.27
	USD/JPY	126	135	144
	GBP/USD	1.36	1.41	1.46
	EUR/CHF	0.93	0.96	0.99
Equities	S&P500	5.580	6.200	6.820
	MSCI EMU	172	190	207
	TOPIX	2.730	2.990	3.250
	FTSE	8.509	9.220	9.931
	SMI	11.519	12.620	13.721

ICE BofA (OAS)

*The forecast range for the assets is predetermined by their historical volatility. The volatility calculation is based on a 5-year history of percentage changes, equally weighted in the case of the 12-month forecast and exponentially weighted in the case of the three-month forecast. The length of the bars within each asset group is proportional to the relative deviations from their mean forecasts.

IMPRINT

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