GENERALI ASSET MANAGEMENT

Market Perspectives

From trade to fiscal

June 2025

GenAM Macro & Market Research

'Market Perspectives' provide our monthly macro & market outlook and investment recommendations

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- **Investors are still cautiously positioned on risk assets and may react more favorably to further aspects of Trump's agenda, notably on deregulation.**
- **We favour a slight tactical long duration in euro area fixed income amid progressing disinflation and further ECB rates cuts. Amid worries about fiscal profligacy, however, risks are more two-sided for US debt for now – even though current UST yields are not far away from interesting entry points. The US dollar is set to weaken further, though.**
- **Tactically, we favour overweights in Equities and High Yield, even if only small ones after their swift recovery and persistent risks from trade policies. We keep favouring IG Credit, financed by underweights in Cash and short-dated Core Government Bonds.**

Content

Global View – From trade to fiscal

Thomas Hempell

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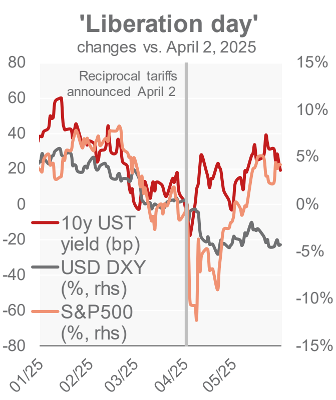
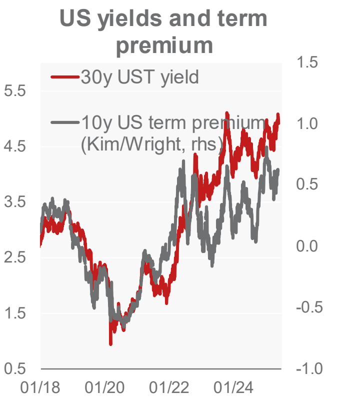
Global risk assets extended their recovery from the 'Liberation Day' shock in May, with equities now trading more than 5% above April 2 levels (MSCI World). Substantial uncertainties about US tariffs persist, with deadlines looming for July 9 ('reciprocal' tariffs and threat of 50% on EU) and Aug. 12 (China ones) while the 10% universal rate is still in place. The US Court of International



Source: Datastream, GenAM



Source: FRED, Datastream, GenAM

Trade (CIT) has added another layer of uncertainty by questioning Trump's full authority on imposed tariffs, with the final say now in the hand of the Supreme Court. This still leaves the US effective tariff at 16% for now, more than sixfold its 2024 level. The economic fallout from this high tax on trade and the uncertainties will still show up in hard data, with a US growth deceleration underway, even if likely disguised by a technical Q2 payback from Q1 contraction.

That said, after Trump's repeated blinking, peak uncertainty is now likely behind us and the worst case of a full-blown escalation and US recession is largely contained. This benefits the prospects of Credit, which is most vulnerable amid recessions. We have also turned more constructive on Equities, even if only moderately so after the recent bounce, and given the persistent policy risks and the looming tariff fallout on hard data. That said, investor positioning is still somewhat cautious and the focus on trade worries may shift at least partially to more market-friendly parts of Trump's agenda, notably on deregulation. Seasonals are usually also favorable for global equities, especially in July.

Meanwhile, looming US fiscal profligacy alongside Moody's toppling of the US' AAA rating has raised worries at the Treasury and FX market. The budget passed by the House is likely to add more than U$3tr of debt over the next decade. This number may still increase as the Senate may be inclined to trim foreseen cuts in Medicare and IRA expenses. This may cement the US deficit at 6-7% of GDP for the coming years, an unsustainable level in the long run. Markets are increasingly worried: 30-year UST yields temporarily surpassed 5% for the first time since 2007 and the term premium rose while the USD remained under pressure lagging the recovery of yields and equities (charts).

10-Year Gvt Bonds	Current*	3M	6M	12M
US Treasuries	4.43	4.40	4.20	4.10
Germany (Bunds)	2.52	2.50	2.55	2.70
Italy	3.51	3.50	3.55	3.65
Japan	1.51	1.50	1.50	1.55
Forex				
EUR/USD	1.13	1.14	1.16	1.18
USD/JPY	144	143	141	135
EUR/GBP	0.84	0.86	0.86	0.86
Equities				
S&P500	5904	5940	5920	6070
MSCI EMU	182	184	186	191

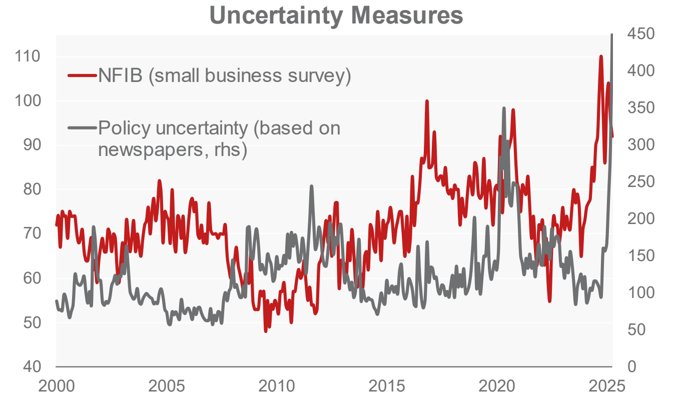
**3-day avg. as of 30/05/25*

Slightly long EUR duration, cautious on USD

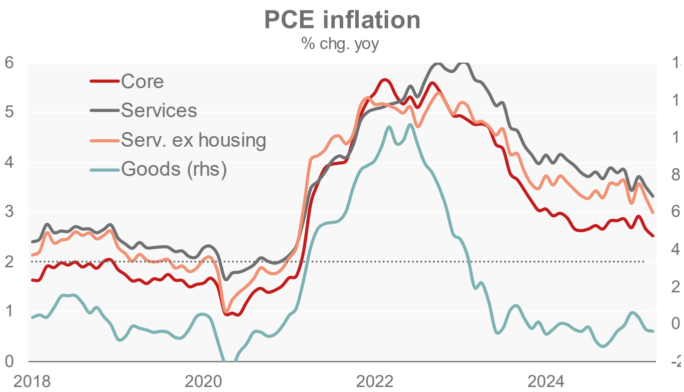
US bonds are already discounting a lot of worries, as evidenced in deeply negative swap spreads. 10y UST yields levels are also well above the 3.8% that markets discount for the Fed rate in 5-years, which in itself looks too high to us. Given the fiscal risks and more downside for the US dollar (see Currency section), we would not rush into US duration for now, even though levels above 4.5% look attractive for longer-oriented exposure. In the euro area easing inflation, sluggish growth and further ECB rate cuts may drag on yields in the near term. Longer term, however, the German fiscal turn and high issuance may exert some upside pressures again such that we have a mild preference for EUR duration mostly on tactical grounds.

United States

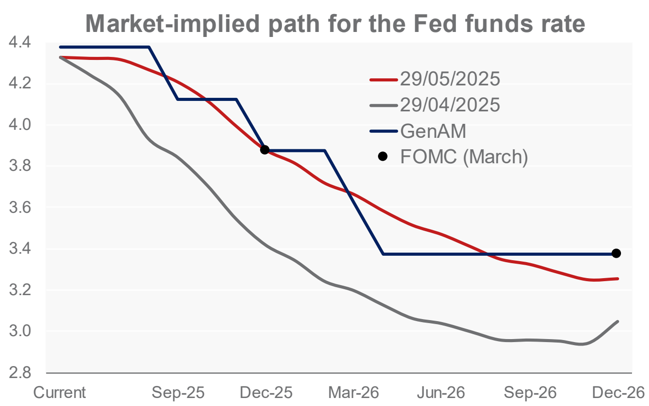
Paolo Zanghieri



Source: NFIB, policyuncertainty.com, GenAM



Source: BEA, GenAM



Source: FRB, Datastream, GenAM

- **Easing trade tensions led us to revise up from 1% to 1.6% our 2025 growth forecast, but high tariff uncertainties keep downside risks prevailing.**
- **Core PCE inflation is set to peak at 3.5% yoy during the summer. Tariffs have yet to show up in full in the hard data, and the large Q1 stockpiling may smooth the impact.**
- **We expect the next US rate cut in September, followed by another one in December as the Fed will need time to assess the post-tariff outlook. Risks are clearly tilted to less accommodation this year.**

Political uncertainty remained the key driver of market swings, as hard data are not reflecting yet the policy shift. May ended with a judicial dispute on the tariffs announced on April 2. Their implementation is temporarily allowed, pending a Supreme Court decision. Moreover, the draft bill passed by the House would increase the federal deficit. We raised our 2025 forecast from 1%, to 1.6% on the back of relatively solid domestic demand in Q1 (2.6% qoq ann.) and more moderate tariff assumptions. Yet extreme policy uncertainty gives a downward tilt to the balance of risks. This is reflected also in business surveys, where the mood among manufacturers remains subdued and self-reported uncertainty is at an historical high.

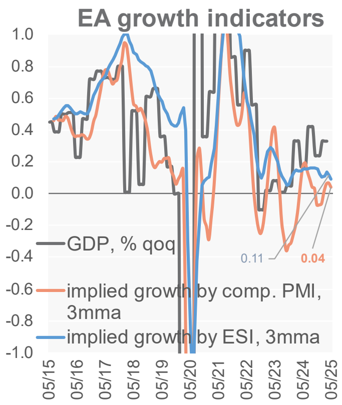
Core PCE eased to 2.5% yoy in April, and the details were mildly reassuring; prices in core services less housing were still increasing at 3% (from 3.3% in March). Several surveys shows that firms are ready to pass the extra costs on to consumers, but the stockpiling observed in Q1 may allow them to do that smoothly. Tariffs should raise quickly the price level, and we see core PCE inflation peaking at 3.5% in Q3.

Two rate cuts this year, with risk of less accommodation

The May Fed meeting was uneventful, with Chair Powell highlighting that trade policy raises upside risks for both inflation and policies. As stressed in the minutes, lack of visibility on the ultimate level of tariff and on the strength and timing of the pass though on demand and prices raised the cost of acting pre-emptively. Moreover, the strength of the labour market (in April the unemployment rate stood at 4.2%) does not call for immediate action. The minutes also highlighted concerns about the long-term implications for the economy of a "diminution of the perceived safe-haven status of US assets". We expect two rate cuts this year (September and December), as by the end of the summer the FOMC should have enough hard data to decide. However, risks are clearly tilted to delayed action, as inflation may prove sticky.

Euro Area

Martin Wolburg



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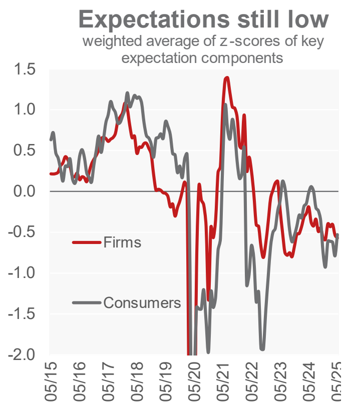
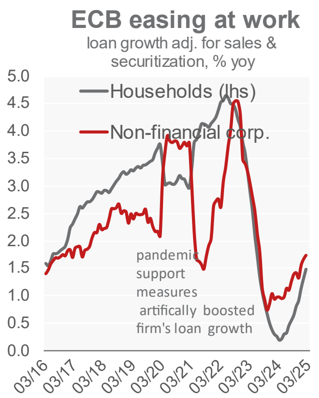


Source: Datastream, GenAM calculations



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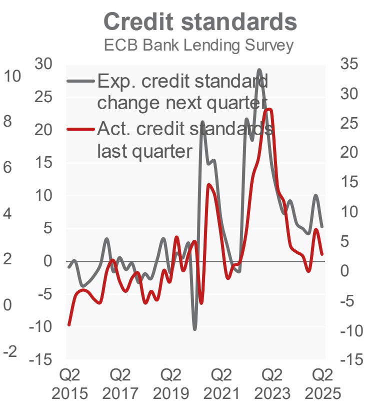

Source: Datastream, ECB, GenAM

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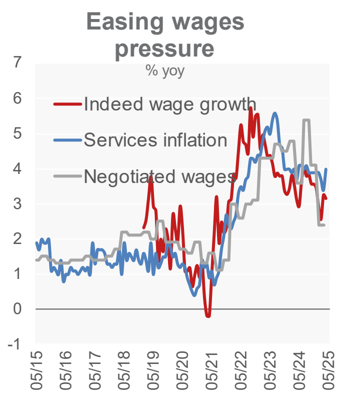


Source:Datastream, indeed, GenAM

- **While the anticipation of the trade war lifted activity at the outset of the year, we look for meagre growth of only about 0.1% qoq over the coming two quarters.**
- **We assume that the US/EU trade issue will be resolved, inflation lastingly falls towards target, and past rate cuts unfold so that activity will gain traction towards year-end.**
- **The air for ECB rate cuts is getting thinner. We expect another 25 bps cut in June but see the risk that the final one will be postponed to September.**

Growth at the outset of the year was surprisingly strong. Due to healthy German growth (of 0.4% qoq) the final euro area reading will likely be at 0.4% qoq too. However, available country details show that exports were boosted by the anticipation of US import tariffs. Over the coming quarters there will be payback time and sentiment indicators like the composite PMI and the ESI see activity expanding at a meagre rate of about 0.1% qoq (top chart).

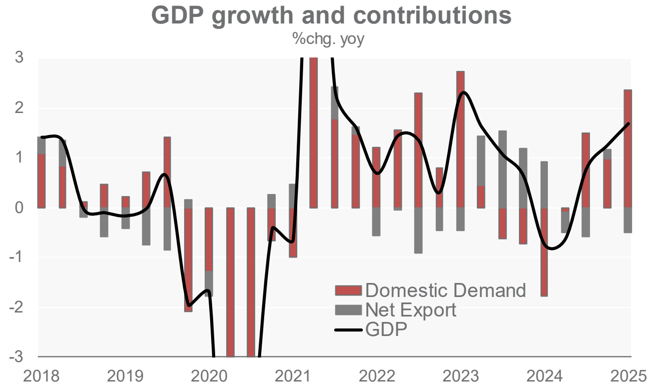
That said, we expect a lasting rebound of activity towards year-end. We assume that negotiations will ultimately end the tariff war in summer with a benchmark tariff on EU goods of no more that 10%, plus scaled down product specific ones. This would reduce uncertainty and revitalize trade with the US. Moreover, we see a strengthening of domestic activity ahead: Inflation likely fell to 2.0% yoy in May and is set to stay there over the coming quarters. Together with a strong labour market this should lift consumer confidence and ultimately spending. Monetary policy easing makes its way through the economy and helps to stimulate loan growth (mid charts). With uncertainties receding investment activity should also improve. Moreover, towards the end of the year we expect the German fiscal bazooka effects to start becoming effective. All in all, we expect euro area growth to expand by 1.0% (up from 0.8%) in 2025, slightly above the 0.9% consensus forecast.

ECB: Approaching the landing rate

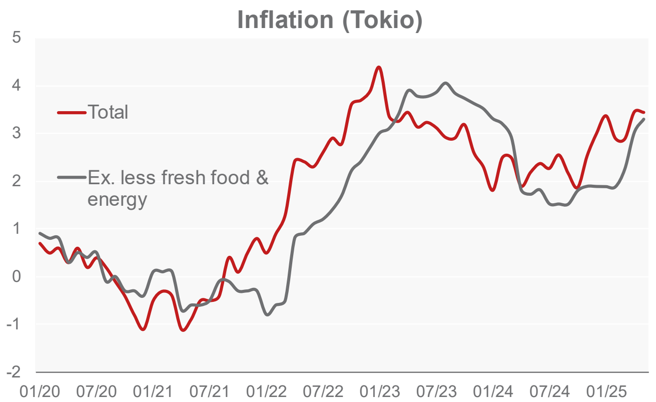
At 2.25% the policy rate has already reached the upper bound of the neutral corridor of 1.75% to 2.25% estimated by ECB staff. Still, we do not expect an end of the easing cycle yet. Updated ECB macro projections should see inflation in line with its target; wage growth shows signs of deceleration (bottom chart). We also think that trade war risks will on balance support further cuts, but recent comments show that the discussion about further policy action within the GC increased. We look for another 25 bps cut on June 5. We continue to expect a final cut to 1.75% but it might well be postponed to September.

Japan

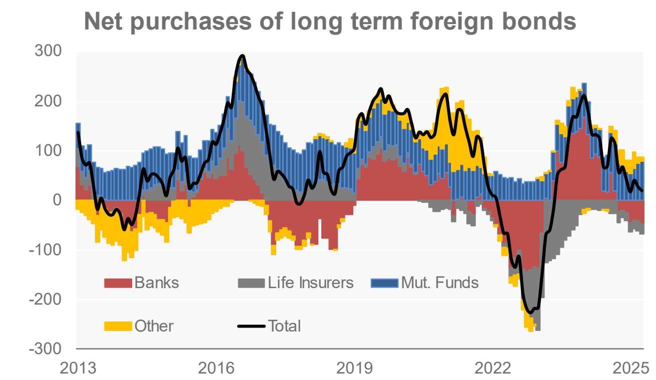
Paolo Zanghieri



Source: Cabinet Office, GenAM



Source: Bank of Japan, GenAM



Source: BoJ. GenAM

- **We lowered to 0.5% our growth forecast for this year, as trade uncertainty and higher wage costs will weigh on the manufacturing sector.**
- **Japanese inflation is now among the highest in the G-7, with stronger pressure emanating from core services. Worries about growth will still lead the BoJ to postpone the next hike into early 2026**
- **The recent spike in very long term yield should not stop QT as it is not related to inflation. April saw another reduction in net purchases of foreign govies.**

The first estimate of 2025Q1 real GDP growth came in at -0.7% qoq annualized but was up 1.7% yoy. Domestic private demand remained firm, mostly thanks to capex accelerating further, while net export proved a drag. We expect a deceleration in the coming month, originating from the manufacturing sector, as shown by the weakening in industrial production (-0.9%mom in April) We then lowered from 0.8% to 0.5% our growth forecast for this year and predict only a tiny acceleration in 2026. The outcome of the trade negotiation with the US is the main risk factor.

Inflation remains a concern Tokyo core CPI (ex.fresh food and energy) stood at +3.3% yoy in May, up +0.2 pp from April. The main driver was a broad-based increase in food and beverage prices and in services. Upward pressure in labour intensive sector will persist The spring wage negotiations shown a growing recognition of the need to raise base pay in anticipation of increasing labour shortages.

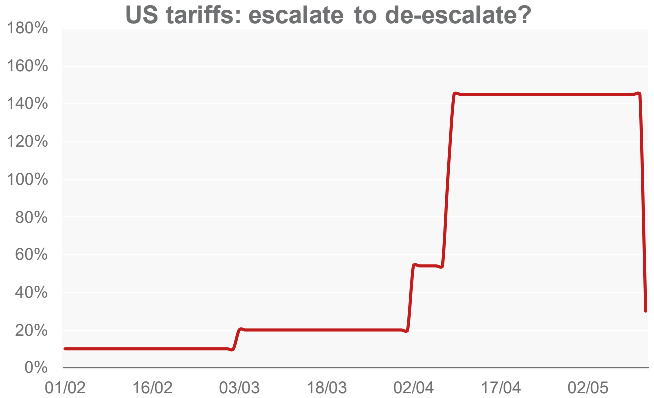
BOJ on hold until next year on growth uncertainty

Japan's inflation is now the one of the highest among the G-7 countries and is driven to a large extent by demand factor. Yet, the BoJ will delay into H1 2026 the next rate hike, waiting for more clarity on the growth fallout on the looming Us tariffs. Despite the spike in ling dated JBP yields, the BOJ will continue to slow down bond purchases. First of all, high yields are mostly due to falling demand for long term securities and not inflation spiralling, secondly 30-year rate do not have much influence on the real economy: for example, corporate borrowing is clustered around the 5-year maturity.

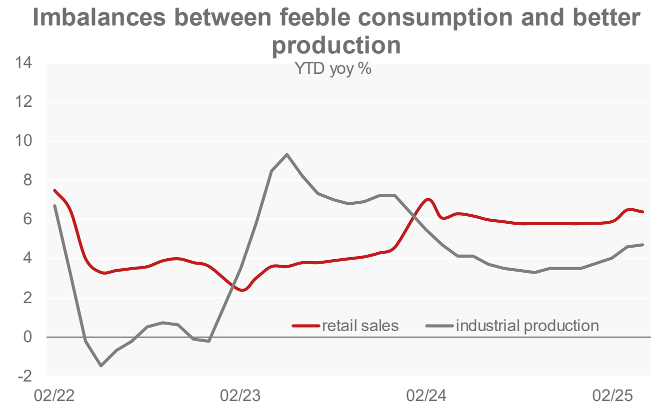
Meanwhile, net purchases of foreign bonds continue to shrink, led by banks and insurers. The country breakdown for April is not available yet, but March data were showing already much lower net purchases of US Treasuries, whereas net sales of OATs continued.

China

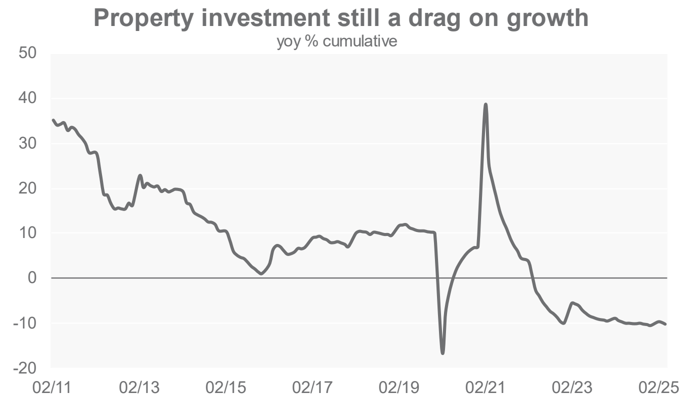
Guillaume Tresca



Source: Bloomberg, the White House, GenAM



Source: Bloomberg, NBC, GenAM



Source: Bloomberg, NBC, GenAM

- **The outlook has substantially improved following the rollback of US tariffs. There is an upside risk to activity and sentiment, and therefore to our growth forecast of 4.2%.**
- **Policymakers have room to manoeuvre. The next key step will be the Politburo meeting in July, at which point policymakers can provide additional support.**
- **Structural imbalances continue to weigh on activity. Production has been solid, but consumption is weak. The real estate sector is still convalescing, it should limit a rebound in consumption.**

The outlook has improved significantly within a month, as the rollback of US-China tariffs and the commencement of trade discussions with major Asian countries have mitigated the risk of a substantial slowdown in China. The US's effective tariff rate is now close to 38%. There is an upside risk to activity and sentiment, as well as to our growth forecast of 4.2%. Although the peak of uncertainty has passed, renewed uncertainty cannot be ruled out until the end of the 90-day pause. For example, pressure from US policymakers on transshipments in Asia will ultimately curb Chinese exports.

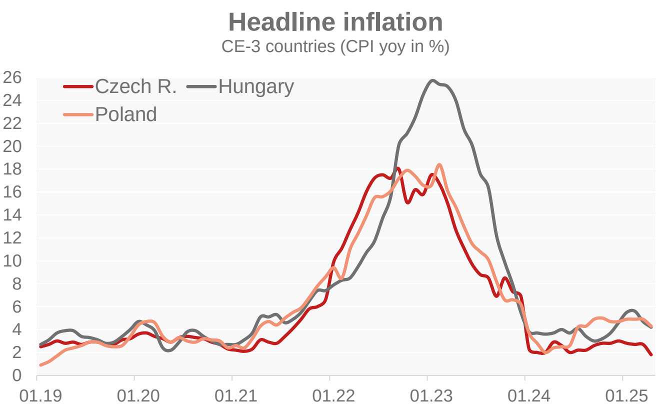
There is room for manoeuvre. China has cut the key rate by 10bp to 1.40%, and we anticipate a further 30 bp of easing by the end of the year. The stabilisation of the CNY at better levels provides more room for action if needed. In their latest statements, policymakers have demonstrated their commitment to achieving the 5% growth target in 2025, and the issuance of special bonds has accelerated over the past two months, showing the initial effects of the fiscal support announced in Q4 of last year. This is not a new development, but it shows that fiscal support is trickling down. The next key step will be the Politburo meeting in July, when policymakers may provide further support.

Mixed activity required more support

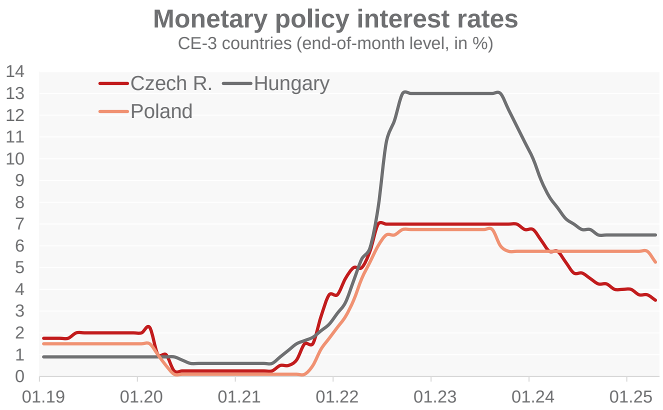
We would expect some new marginal support, given that structural imbalances continue to weigh on activity. After a strong first quarter, April's activity data were mixed, showing a slowdown in consumption. Retail sales were below expectations, and the positive effect of the trade-in program is fading, but production was solid supported by the tech sector. Apart from the trade-in program, the authorities have been cautious about implementing other measures to support consumption, and we can hardly expect a long-lasting rebound in consumption unless the real estate sector improves significantly. Unfortunately, housing prices fall further. Recent monetary easing could provide some short-term relief but it should not be enough to trigger a meaningful turnaround.

Central and Eastern Europe

Radomír Jáč



Source: www.czso.cz, www.ksh.hu, www.stat.gov.pl, GenAM



Source: www.cnb.cz, www.mnb.hu, www.nbp.pl, GenAM

Main Forecasts

Czech Republic	2023	2024	2025f	2026f
GDP	0.1	1.0	1.8	2.0
Consumer prices	10.7	2.4	2.4	2.0
Central bank's key rate	6.75	4.00	3.25	3.25
Hungary	**2023**	**2024**	**2025f**	**2026f**
GDP	-0.8	0.5	1.0	2.7
Consumer prices	17.6	3.7	4.6	3.6
Central bank's key rate	10.75	6.50	6.00	5.00
Poland	**2023**	**2024**	**2025f**	**2026f**
GDP	0.2	2.9	3.3	3.2
Consumer prices	11.4	3.7	4.1	3.0
Central bank's key rate	5.75	5.75	4.75	3.75

Source: www.cnb.cz, www.mnb.hu, www.nbp.pl, GenAM

- **The central banks in Czechia and Poland cut interest rates in May, but their communication suggested that rates will stay unchanged in June. The Hungarian MNB kept a cautious monetary policy stance, and we do not expect resumption of rate cuts before late Q3.**
- **Czech and Polish GDP were solid in Q1 but Hungary disappointed. Inflation reached local lows in the CE-3 in April but may increase in the near term.**

Inflation in the CE-3 countries eased in April but base effects are likely to lead it higher in May and June. The annual CPI dynamics should then calm in H2 in Czechia and Poland but remain relatively elevated in Hungary.

On the growth side, Poland reported strong GDP growth for Q1 at 0.7% qoq and 3.8% yoy. Czechia also reported a solid growth at 0.5% qoq and 2.0% yoy but Hungary disappointed, as GDP fell by -0.2% qoq and -0.4% yoy. We kept our call for the full-year 2025 GDP growth unchanged for Czechia and Poland, but for Hungary we cut it from 2.2% to 1.0%.

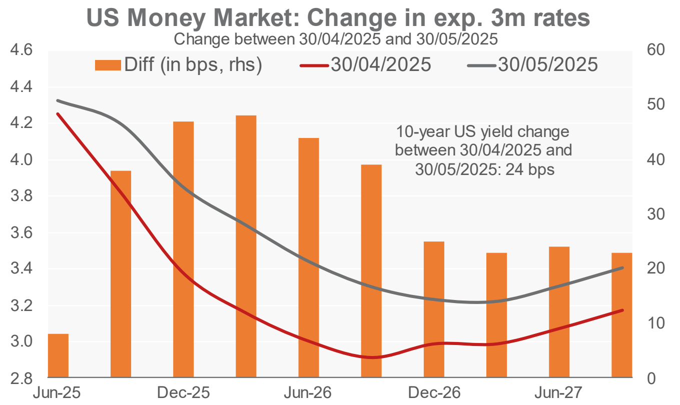
The first round of presidential elections took place in Poland on May 18. The result of the ruling coalition candidate (whose victory would be perceived as market-friendly) was less convincing than expected, and markets are looking for the runoff vote, which will take place on June 1.

Poland: The first interest rate cut since autumn 2023

The Polish NBP cut its key rate by 50 bps to 5.25% in May. The move was signalled in advance, and the yield curve was pricing further substantial fall in rates. However, the MPC said after the cut that rates will stay unchanged in June and that further cuts are likely to come in steps by 25 bps. The timing of the next move is uncertain. While a rate cut in July cannot be ruled out, there were signals that next cuts in Poland will come only in Q4 and that the cumulative interest rate decrease in the 2025 may reach 100-125 bps. The Czech CNB cut the key rate by 25 bps to 3.50% in May after taking a pause in March. The CNB staff-forecast showed the key rate at 2.75% at the end of 2025 but the CNB Board said that it saw a smaller room for rate cuts. We keep our view that the CNB will stay on hold in June and that the final rate cut (by 25 bps to 3.25%) will come in August. In Hungary, the MNB's base rate stands at 6.50% (the last rate cut by 25 bps came in September). While inflation eased further in April, the MNB remained worried about risks related to prices of food and services. Recent volatility in the U.S. Treasury bond yields also led the MNB to maintain a cautious stance. We expect rate cuts in Hungary to resume in September, by 25 bps per quarter.

Government Bonds

Florian Späte



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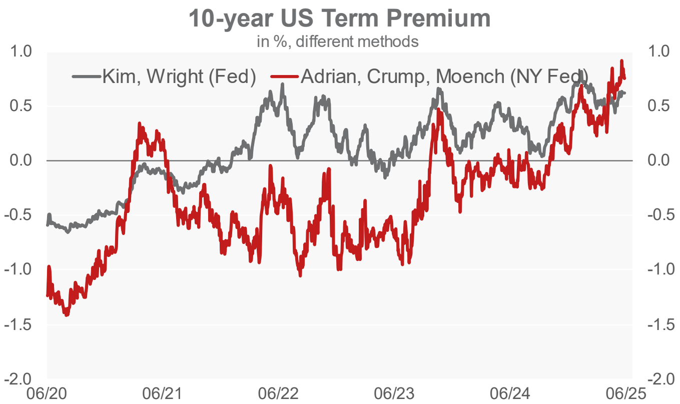

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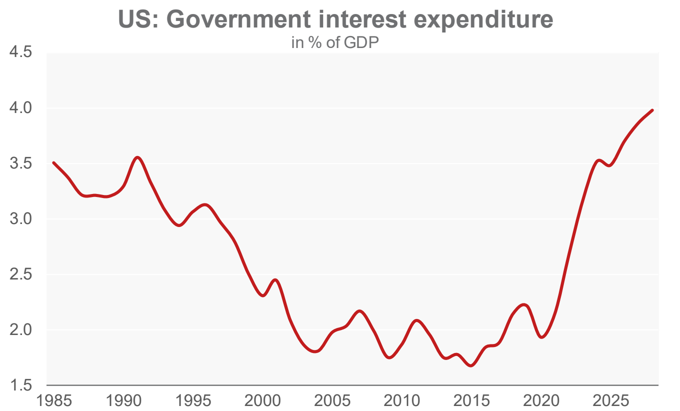


Source: Datastream, GenAM

- **May was divided into two parts: a sharp rise in yields up to the middle of the month triggered by higher term premiums, followed by a moderate yield decline during the second half.**
- **International bond markets will remain torn between concerns about weakening economic data short term and the expectation of a further rise in the term premium in the medium term. In this environment, we advise against an aggressive duration positioning.**
- **Meanwhile, EA non-core gov. bond spreads have narrowed further. Robust oversea demand, combined with the expectation that economic weakness will be overcome in H2, is seen to continue to support EA non-core spreads in the coming weeks.**

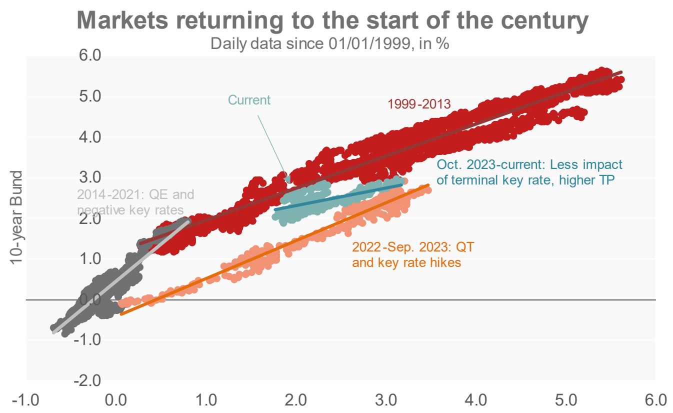
Driven by a combination of various factors, government bond yields rose noticeably in the first half of May, particularly in the US. Trade tensions between the US and China eased (at least temporarily) with a reduction in prohibitively high tariffs. The ongoing debate about the potential introduction of a 50% tariff on EU imports did not have a long-term impact on the bond markets, nor did the increased uncertainty surrounding the legality of tariff impositions due to certain recent US court rulings. Additionally, Moody's downgraded the US's credit rating, removing its AAA status. While this was widely anticipated, it nevertheless represents another piece of the puzzle that calls US debt sustainability into question. Furthermore, the US House of Representatives narrowly approved the tax bill to extend Trump's tax cuts from his first term. Therefore, it is to be expected that the US fiscal deficit will not fall significantly in the coming years, remaining at a level of at least 6% of GDP in the medium term. A slight rise in the price of crude oil and comparatively good economic data have also contributed to the rise in yields.

Although inflation data on both sides of the Atlantic remained below expectations, markets scaled back their key rate cut speculations, thereby supporting the short end of the curve in particular. Rumours of a reduction in ultra-long government bond issuance in Japan echoed around the world, ultimately limiting the steepening of international yield curves and providing some support to bond markets towards the end of the month.

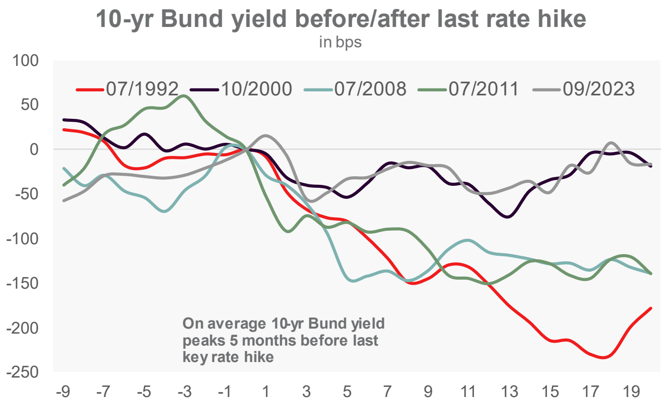
In the coming weeks, we expect the bond markets to continue to be characterised by expectations of weaker economic data short term and further rising term premiums in the medium term. For example, despite rising in recent months, the 10-year US term premium is not particularly high when considering that US government debt has almost doubled in the last 15 years (in % of GDP). US government

Government Bonds

Florian Späte



Source: Bloomberg, GenAM



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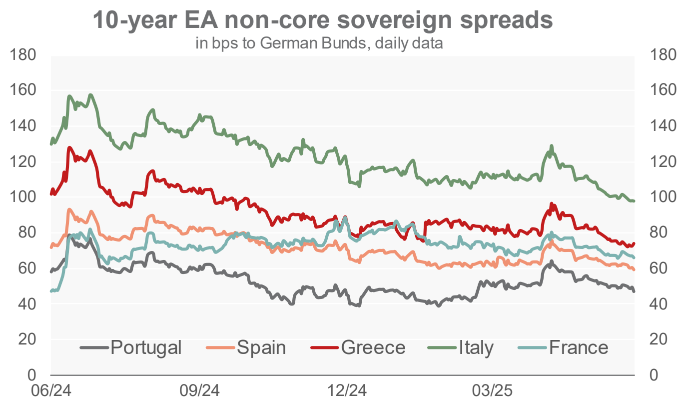


Source: Bloomberg, GenAM

interest expenditure is expected to reach 3.5% of GDP this year, rising to 4% by 2028. Conversely, financial markets appear overly optimistic regarding trade negotiations and the uncertainty at least until July 9 (deadline for tariff negotiations) will remain high. The ECB is expected to cut key rates again in June (and probably once more in Q3) amid EA headline inflation falling below 2% in H2 (and core inflation in 2026), while the Fed has indicated that it does not currently see the need for a key rate cut but has emphasised that it will act swiftly if weaker economic data emerges. Additionally, the expected medium-term key rates (as approximated by the 5y3m OIS) of 3.8% (Fed) and 2.6% (ECB) seem too high.

Overall, we recommend a slightly long duration in the short term, but we advise against taking an aggressive position. In particular, the long end of the US yield curve appears vulnerable given the unsustainable long-term nature of US debt and concerns about a lack of demand from foreign investors. Accordingly, we currently favour the middle of the yield curve; a corresponding long position could provide an attractive hedge against a US recession (which is not our base scenario), given that the upside to medium-term yields appears rather limited. Over a 3-month (12-month) horizon, we forecast 10-year US yields to be around 4.40% (4.10%) and 10-year Bund yields at 2.50% (2.70%).

EA non-core government bond spreads at long-term low

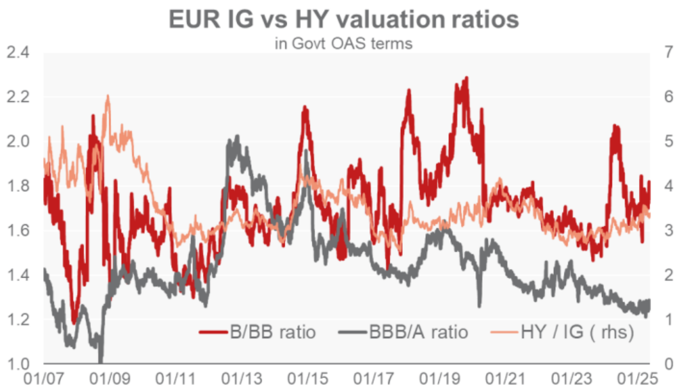
In a favourable market environment, the spread of EA non-core bonds narrowed further. The 10-year BTP/Bund spread fell below 100 bps for the first time since 2021. Expectations of further ECB key rate cuts, the forthcoming German fiscal stimulus and the avoidance of an EA recession, as well as pent-up demand in view of underweighting (in the case of Italy) and relative growth outperformance compared to the EA average (e.g. Spain, Ireland, Portugal and Greece), have contributed to the tightening.

Going forward, we see little potential for a further spread narrowing, given the levels already reached. This is particularly true as markets are generally concerned about the high budget deficits in some EA countries (high term premium). Bond markets are also likely to react to a deterioration in the data. Overall, however, we expect EA non-core bonds to continue outperforming EA core bonds in the coming weeks due to the higher carry.

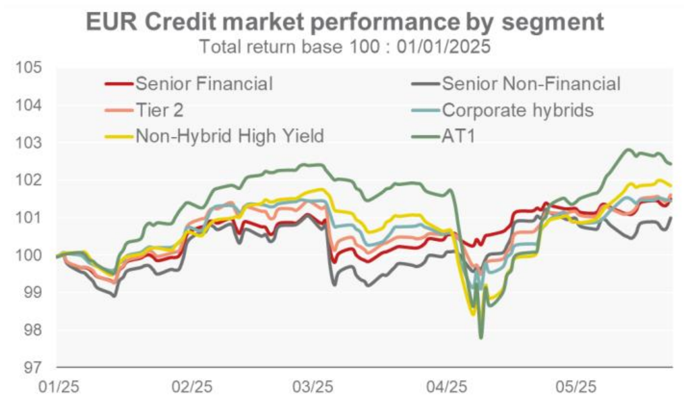
We still see some EA semi-core countries as having more potential. For instance, neither Austrian nor Finnish government bonds have fully recovered from the spread widening that followed the announcement of US tariffs in April. They are still trading well above their long-term lows and offer an attractive risk/reward ratio.

Credit

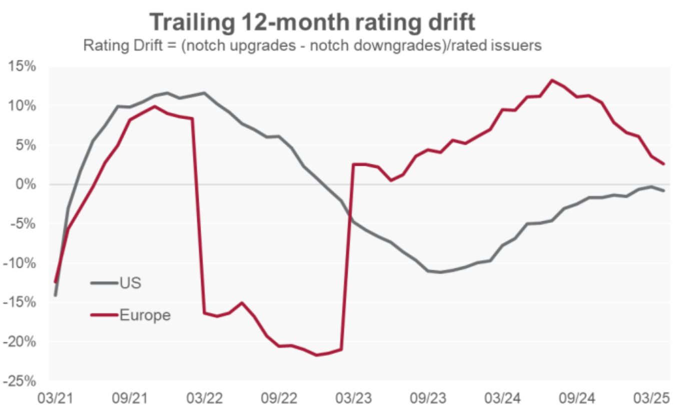
Elisa Belgacem



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



Source: Bloomberg, BofAML indices, GenAM



Source: Moody's, GenAM

- **We project a modest tightening bias in IG and expect HY to slightly decompress near term.**
- **Total returns remain strong thanks to elevated carry and roll-down, supported by our expectation for somewhat lower Bund yields.**
- **We have seen a sharp pickup in issuance in May across IG and HY that has been extremely well absorbed thus far, boding well for future demand**
- **We recommend either extending duration in IG non-financial, the 5-7Y bucket, or preferring subordination risk to credit risk with AT1 corporate hybrids remaining more attractive than BBs.**

Credit spreads have impressively returned to pre-Liberation Day levels. This is primarily due to strong fundamentals. Despite the significant slowdown in revenue growth, companies have managed to protect their margins, keeping leverage below historical averages. Additionally, high interest rates have enabled firms to maintain above-average liquidity buffers. Although our earnings projections are moderate, slow but positive earnings growth is sufficient for credit markets, given the strong starting point.

Record high supply easily meets demand

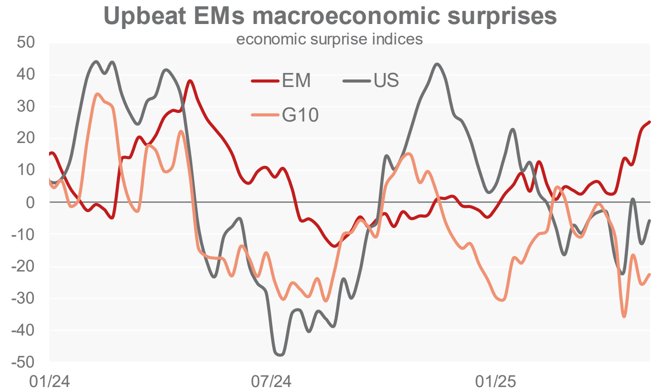
There's been a noticeable increase in bond issuance in May, both in Investment Grade and High Yield categories. However, this surge in supply should be balanced by a significant pipeline of redemptions. The EUR IG net supply could decline by more than 10% year-on-year, which is quite different from the government bond markets where there should be an accelerating pace of net issuance, comforting our long-standing preference for credit over government bonds.

IG is well positioned to perform in a low growth world

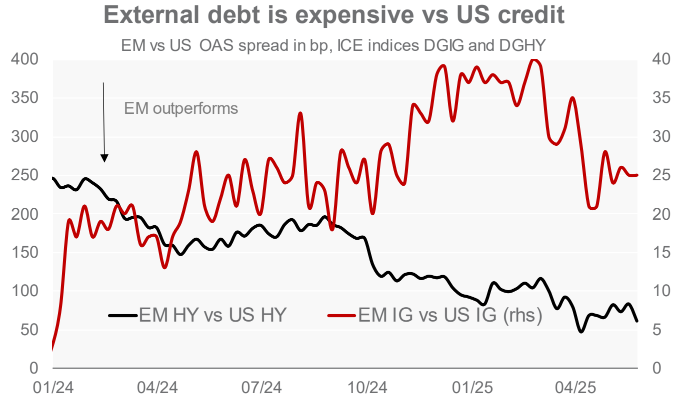
Spreads are less appealing, but we continue to see small tightening potential in IG and overall carry remains attractive. Valuation considerations also lead to a preference for Europe over the US. We prefer long IG and subordination risk to pure HY, but keep a slight HY overweight. With HY defaults declining but fundamentals under slight pressure, a strategic move would be to leverage IG to enhance credit returns. Despite limited spread tightening potential going forward, we continue to favor AT1, particularly versus single-Bs.

EM sovereign bonds

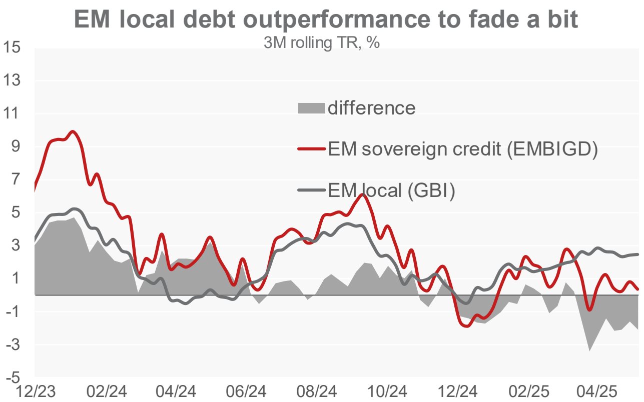
Guillaume Tresca



Source: Bloomberg, Citi, GenAM



Source: Bloomberg, ICE, GenAM



Source: Bloomberg, JP, GenAM

- **The EM growth outlook has improved substantially, and activity has been resilient. The peak of uncertainty has passed, but we cannot rule out renewed tension.**
- **External debt has been priced in a lot of positivity.** We still expect mild **positive return but should be essentially driven by carry. Spreads are expensive and will re-widen in the medium term.**
- **Local debt is a tad less attractive with some FX consolidation. Rate outlook is still supportive.**

The EM outlook has improved substantially, thanks to the decline in US-China trade tariffs and the start of discussions with major Asian countries. The risk of a sharp slowdown in growth has eased, as has the risk of recession in countries such as Mexico. The US's effective tariff rate on imports from partner countries, excluding China, was 1% in Q4 of 2024 and has since risen to 9.4%. While the peak of EM growth uncertainty has passed, we cannot rule out a resumption of pressure from the US on other countries to negotiate deals. On average, EM economies have remained resilient despite rising uncertainty. Macroeconomic surprises remain positive, EM PMIs have barely declined and hard data has held up on average. Inflation continues to decline at a more moderate pace, providing room for monetary easing.

External debt: positive return despite spread widening

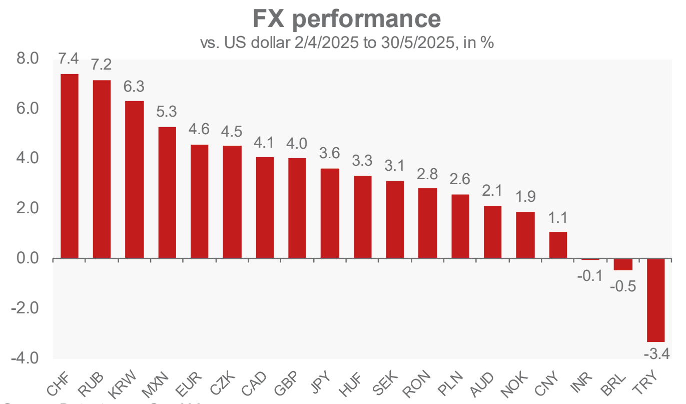
External debt has been priced a lot of positivity. While we still expect a mild positive return in the short term, this will essentially be driven by carry. Indeed, we still expect EM spreads to widen by around 30 bp The growth outlook has improved, but the spreads have returned to tight pre-Liberation Day levels and do not reflect the high level of uncertainty. Similarly, valuations are now historically and relatively high, especially for HY which has outperformed US HY. EM IG is also at its richest level versus US IG for a year. Therefore, we prefer IG over HY, particularly BBBs, and BBs such as those in Serbia, Morocco and the Western Balkans.

Local debt: some FX consolidation, positive rate outlook

Local debt is still offering attractive returns until the end of the year, although these will be slightly lower in the short term due to the significant weakening of the USD. Some consolidation is likely on FX, but with regional diversity. Latin America is struggling with idiosyncratic risks, while Asia is expected to continue to rally on the back of trade agreements. The outlook for rates is positive, supported by falling inflation and dovish central banks. The decline in UST rates will help, but we do not expect much spread compression. Front-end CEE local debt is attractive. In FX, we like BRL, TRY and EGP.

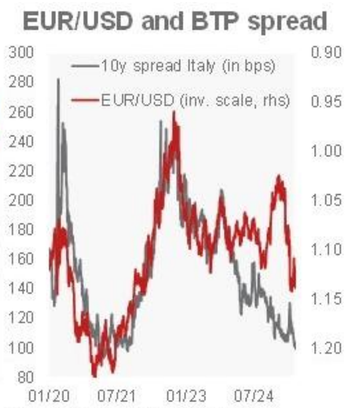
Currencies

Thomas Hempell

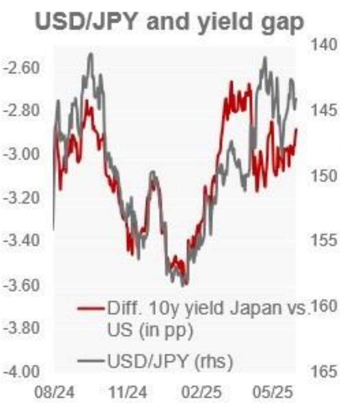


Source: Datastream, GenAM

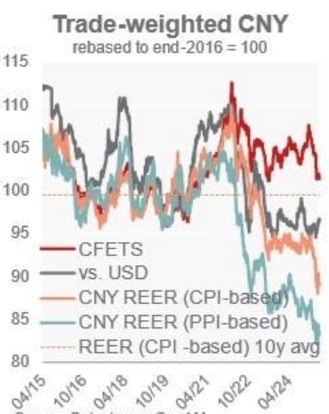
Source: Datastream, GenAM calculations



Source: Datastream, GenAM calculations



Source: Datastream, GenAM calculations



Source: Datastream, GenAM

- **US equities and yields have recovered from the 'Liberation Day' shock but the damage to the USD is proving sticky. We expect USD weakness to extend further. The dollar is still trading dear on fundamental grounds, leaving scope for further retracement.**
- **Mounting worries about the lack of consolidation efforts will prevent US fiscal largesse to translate into USD support. The turn to a negative correlation between US yields and the USD indicates eroding confidence in the greenback.**
- **We expect both the EUR and JPY to post further gains. The CNY may have further upside especially if the US and China can either agree on a deal or extend the Aug. 8 deadline further.**

Trump's pausing of punitive tariffs announced on 'Liberation Day' (April 2) has helped US equities and yields recover strongly. Yet the damage to the USD is done. It has been little changed over the course of May, but the DXY is still down more than 4% since early April. We flagged the more two-sided short-term outlook for the USD last month, given the significant decline earlier and the strong consensual positioning against the greenback. We stick to our view that there is more USD downside over the course of H2. In normal times, an expansionary fiscal stance that seems to evolve from the reconciliation process in US Congress would help to strengthen the USD. Instead, with consolidation prospects increasingly questioned and the confidence in the USD eroding, rising US yields no longer help the US dollar. There will be some support from a Fed reluctant to cut and with a recession likely avoided. Yet despite the dollar's 8.5% fall year-to-date, it is still trading dear in real effective terms (left mid chart), leaving scope for a further retracement.

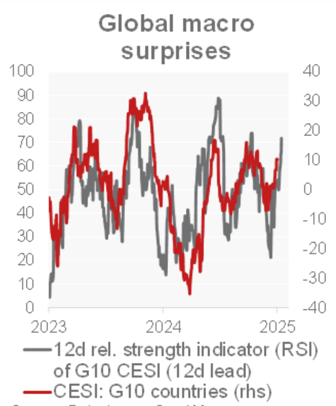
EUR and JPY with more upside

The EUR is attracting investors as the German fiscal turn and a push for stronger joint defense efforts is bolstering confidence in the single currency, which is also reflected in BTP-Bund spreads hovering at low levels around 100 bps (mid right chart). Fallen costs of energy imports improve the euro area's terms of trade. We anticipate the EUR/USD to settle in the 1.15-.20 range over H2. We expect the reversal of fortune of the USD to also benefit undervalued currencies like the JPY and CNY. Repatriation flows bolster the yen which has decoupled from US yields (bottom left chart). Very low Chinese inflation and a weak USD have depressed the effective CNY (bottom right), opening space for Chinese authorities to tolerate some further decrease in the USD/CNY especially in case a trade agreement with the US can be reached by August.

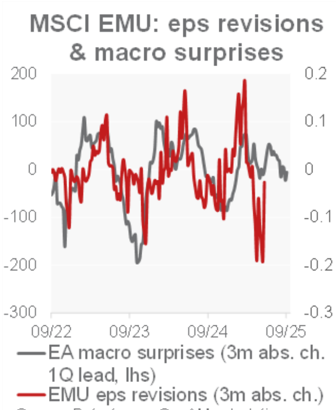
Equities

Michele Morganti and Vladimir Oleinikov

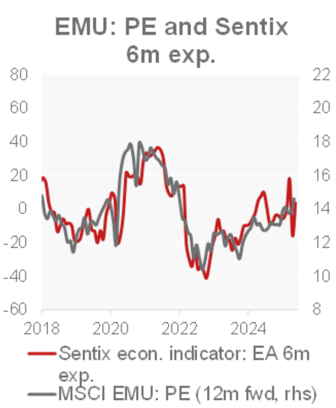
Source: Datastream, GenAM calculations



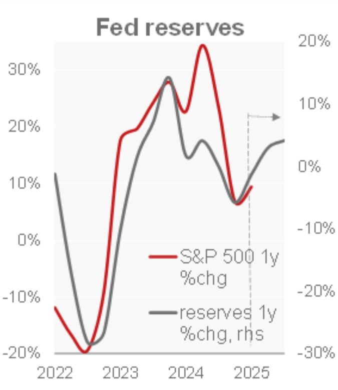
Source: Datastream, GenAM



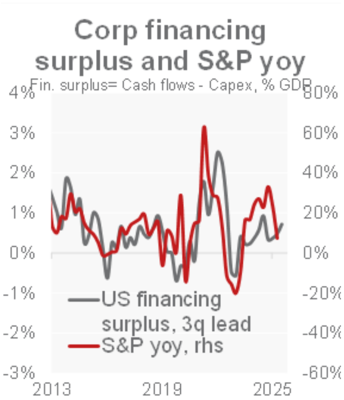
Source: Datastream, GenAM calculations



Source: Datastream, GenAM



Source: LSEG, GenAM calc.



Source: FRED eco data, GenAM calculations

- **We turn more constructive and slightly overweight (OW) equities. Trends in both money aggregates (M2) and Fed's reserves are positive, as is the economic policy support from Germany and China.**
- **Market technicals are good, too: high corporate free cash flow, low IPOs, but strong buyback momentum.**
- **Our ML models predict a higher performance for equities vs. bonds, and equity valuations back decent TR ahead (ca. 9%), with positive earnings growth expected. Finally, positioning remains relatively low.**
- **Cheaper ex-US equities have a chance to outperform. While US exceptionalism is weakening, Chinese IT firms are getting more competitive and new policy measures in Germany and China are sustaining their own economies.**
- **Lastly, the total cash to shareholder yield in EU is at an all-time high vs. the US. Furthermore, higher interest rates are positive for the EU financial sector.**
- **Mild OW after the rally due to risks: lingering discussions about tariffs, high policy uncertainty, and potential macro weakness. This adds to concerns about the US fiscal deficit and pressure on long-term yields.**
- **Slightly OW EU vs US and US IT. OW MDAX & EU small cap, Japan, India, Poland. Slight OW China & CH IT. Diversify US into equally weighted SPX, Gold firms, AI phase4.**
- **EU sectors: OWs: Banks, Insurance, A&D, Building Products, Construction, Food Retail, Pharma, RE, Semis. UWs: Comm. Prof. Svs., Durables, Energy, FBT, HPP, Media, Software, Tlc, Transport, Utilities.**

We are now slightly OW in equities. Support comes from high corporate free cash flow, low IPOs but high buyback momentum: the market gives shareholders more money back than it asks for. Trends in both money aggregates (M2) and Fed's reserves are positive, as is the economic policy support from Germany and China. Central banks are still on the dovish side, ECB in particular. Our ML models are positive, and valuations deserve decent total returns ahead (ca. 9%), also thanks to positive earnings growth. Finally, positioning remains relatively low. The mild overweight is due to risks after the recent huge rally: lingering discussions about tariffs, still very high policy uncertainty index and potential macro weakness. This adds to concerns about the US fiscal deficit and the pressure on long-term yields. Ex-US equities have a chance to outperform US ones. The US's exceptionalism and high positioning is peaking – including Chinese IT firms becoming more competitive - and the USD is weakening. Supportive new fiscal measures in

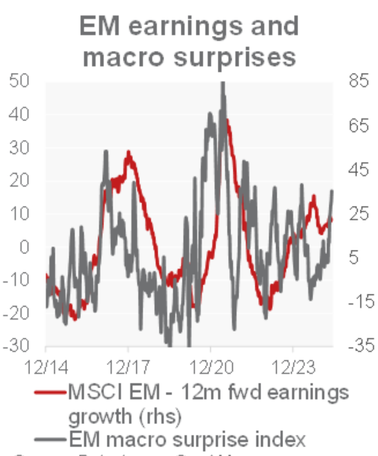
Equities

12m targets (as of 30.05.25)

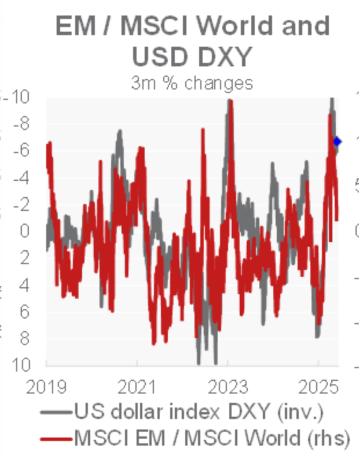
Market Index	CAPE yield gap vs real yield, % gap to avg since 2003	CAPE (infl. adj.), premium /discount	PE adj for expected eps growth (PEG)	market multiples, discount to history	composite valuation score (1=best)	GenAM 12m TR
S&P 500	-1.6%	34%	2.2	43%	48	5.7%
MSCI EMU	-1.1%	15%	2.3	20%	42	9.0%
FTSE 100	0.4%	-7%	2.2	5%	32	9.5%
SMI	0.1%	8%	2.1	19%	26	9.5%
TOPIX	0.0%	1%	2.3	-8%	21	10.0%

Source: Datastream, Bloomberg, GenAM calculations

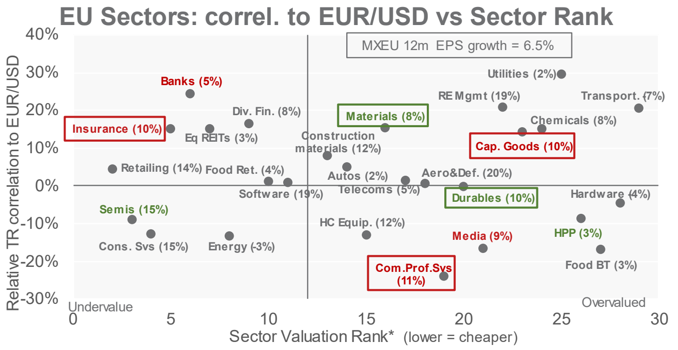
Note: CAPE (cyclically-adjusted PE) = price divided by earnings averaged over a 10-year period adjusted for inflation, excess CAPE yield = 1/CAPE - (10yr rate - avg inflation over 10yr) = real earnings yield minus real rate, using 10-yr avg for CPI and earnings. Multiples (PE, PB, PCF, DY) are based 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 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)



Source: Datastream, GenAM



Source: Datastream, GenAM



*includes Fed Model gap, exp. TR, PEG adj. (for ROE and COE), Shiller PE, 3 -stage EPS growth model, mkt multiples, PE vs hist. avg. excl. bubble years. 12m EPS growth = 12m fwd EPS vs 12m trailing EPS

Green/Red name = positive/negative machine learning (ML) models **in (X%): 12m EPS growth** ▭ = Best performing models

Source: Refinitiv, GenAM calculations as of 29/05/2025

Germany and China add to US valuations which remain relatively rich. Lastly, the total shareholder yield (DY + gross buyback) in the EU is at an all-time high (5.5%) vs. the US (3.7%, historically low). Furthermore, higher interest rates are positive for the EU financial sector.

Q1 reporting season is over, showing healthy earnings beats. In particular, the US earnings surprises for the index is at 7.7%, which is above 6.5% for the last nine quarters. The median sector EPS growth is lower than in Q4, reflecting in part trade frictions: 6.7% vs 9.4% for S&P500 and 1.8% vs 8.4% for the Euro Stoxx. Sales growth was less affected, staying almost at the same level like in the previous quarter. For EMU companies, eps surprises vs. consensus are positive at 4% and, in contrast to the US, are above the previous quarter (at 2%). Overall, the ratio of positive-to-negative surprises stayed at a high level of 80% for the US and increased from 54% to 62% for the Euro Stoxx. After having experienced a huge downgrade since last December (-6%, -8% for EU), consensus expects Q2 US earnings growth to have a trough in the next quarter (Q2,+5.8%), with Energy and Materials being particularly hit (-25% and -4%).

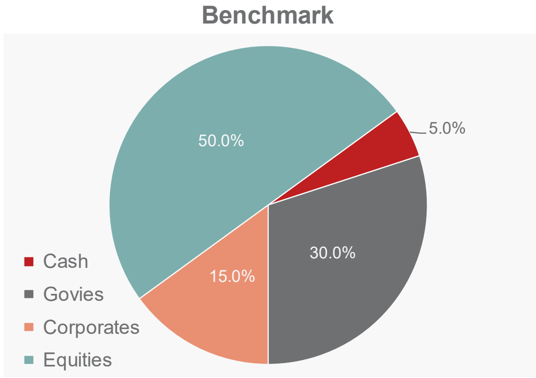
We are upgrading EM equities. Having underperformed MSCI World by 75% since 2018, EMs are now quite undervalued: market multiples trade at a discount vs US and EA by 43% and 16%. EM Shiller PEs are 24% lower than history. Investors' positioning in EM equities is low, too, while macro surprises show a decent positive momentum. Most recently, China's macro trend has also stabilised thanks to fiscal and monetary support plus a renewed alignment between the government and tech firms. With US economy slowing (but no recession expected) and the USD weakening, EMs have chances to outperform. We prefer China and China IT (fiscal stimulus, tech growing leadership, undervalued), India (growth, less vulnerable to tariffs), and Poland (growth, rate cuts, valuations).

European sector allocation: adding back cyclicality

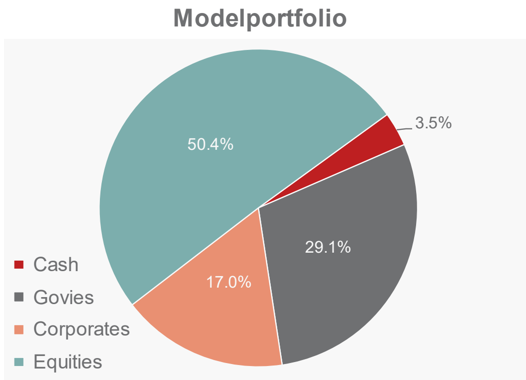
More constructive tariffs' negotiations reduce fears of recession and support adding back cyclicality. We look also to the correlation with a depreciating USD and EPS revisions. Furthermore, we position to capture the second leg of the construction trend – rebuild Ukraine and German infrastructure plan. We increase Construction as a whole (in capital goods and materials), and RE. We move Retailing to a slight OW and bring Consumer Svs. and Auto to neutral. We reduce Staples, Energy and Utilities. OW Small vs Large Cap, Banks, A&D, Construction, Food Retail, Insurance, Pharma, RE, Retailing, Semis. UWs: Comm. Prof. Svs., Durables, Energy, FBT, HPP, Media, Software, Telecoms, Transport, Utilities. We like gold & uranium miners, phase 4 of the AI race – enhanced productivity – and MDAX.

Asset Allocation

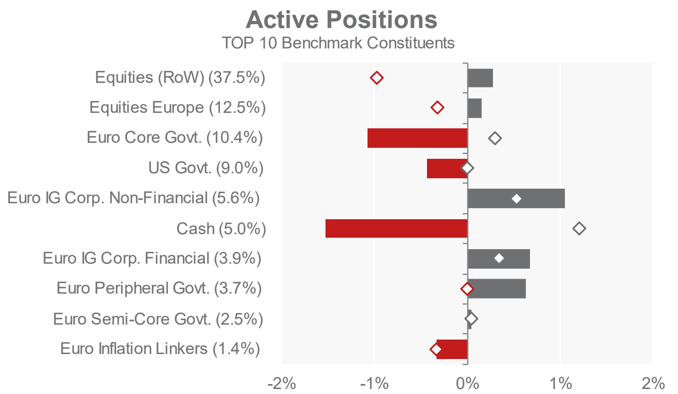
Thorsten Runde



Source: GenAM



Source: GenAM



Source: GenAM; Benchmark weights in parentheses, diamonds indicating prev. recommendations

- **The total return ranking in May 2025 (29.05.25) was clearly dominated by Equities. They keep the top positions ranging from 1.4% for EMs to 6.3% for the US.**
- **The bottom positions of the ranking are held by US-Treasuries across all maturity buckets (-3.2 % 10Y+, -1.5% 5-10Y, and -0-7% 1-5Y).**
- **Except for Italian BTPs the long end of the govie-curves underperformed the short end.**
- **On the Credit side, EA HY outperformed EA IG by more than 70 bps. Within IG non-Fin underperformed IG Fin by around -20 bps.**
- **With the peak tariff uncertainty likely behind us and an outright recession in the US probably being avoided, prospects for risk assets slightly brightened.**
- **Thus, we turned more constructive on Equities and Credit again. We recommend moderate overweights for Equities and HY and a substantial one for IG, reducing exposure to Cash and short-dated Core Government Bonds.**

In May 2025 (29.05.25) our model portfolio underperformed its benchmark by around -7 bps. With -10 bps, the first half of the month proved particularly painful, whereas in the second half we were able to make up almost 3 bps. All in, the positioning in Equities weighed most negatively on the overall result with nearly -4 bps (exclusively through the UW in the first half), followed by the OW in medium-to-long-dated Core Govies which contributed -2.5 bps. The exposure to Spanish Bonos and Italian BTPs proved most rewarding (a good 1 bp in total).

With the peak tariff uncertainty likely being passed and a growing confidence that an outright recession will be avoided, conditions for risk assets have improved. Especially Credit should benefit from the latter. We have also turned more constructive on Equities, even if only moderately so after the recent bounce and the tariff fallout.

Rebuild exposure to risk assets preferring Credit to EQ

As hopes of further trade deals and tariff exemptions seem to be justified for the time being, we rebuild exposure in Credit, moderately so in HY and far more significantly in the IG segment. As global equities have already rallied well above the April 2 level, we recommend just a slight overweight here. The expected fallout of the trade tensions strengthens the case for further rate cuts by the ECB. We are tactically mildly long duration here and turn the Cash position into an underweight. USD weakness has more leeway to run. We stay underweight here.

Forecasts

Macro Data

Growth[1]	2024	2025 forecast	2025 Δ vs. cons.	2026 forecast	2026 Δ vs. cons.	2027 forecast
US	2.8	1.6	0.4	1.9	0.4	1.9
Euro area	0.9	1.0	0.1	1.3	0.2	1.4
Germany	-0.2	0.0	0.1	1.4	0.2	1.4
France	1.0	0.7	0.2	1.2	0.3	1.4
Italy	0.7	0.3	-0.1	0.6	-0.1	0.5
Non-EMU	1.0	1.1	0.0	1.3	0.0	1.5
UK	0.9	0.8	0.0	1.0	0.0	1.5
Switzerland	1.4	1.3	0.3	1.4	0.0	1.2
Japan	-0.1	0.5	-0.3	0.6	0.0	0.6
Asia ex Japan	5.0	4.5	-0.1	4.5	0.0	4.5
China	4.8	4.2	-0.1	4.1	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	2.0	0.0	2.5
World	**3.2**	**2.7**	**0.0**	**2.9**	**0.1**	**3.0**

1) Regional and world aggregates revised to 2024 IMF PPP weights

Inflation[1]	2024	2025 forecast	2025 Δ vs. cons.	2026 forecast	2026 Δ vs. cons.	2027 forecast
US	2.9	2.8	-0.3	2.2	-0.6	2.1
Euro area	2.4	2.0	-0.0	2.0	0.2	2.0
Germany	2.3	2.0	-0.1	2.2	0.2	2.0
France	2.1	1.2	-0.0	1.5	-0.1	2.0
Italy	1.1	1.8	-0.0	1.8	0.1	2.0
Non-EMU	2.3	2.3	0.0	1.8	-0.1	1.8
UK	2.5	3.0	0.0	2.1	-0.2	2.0
Switzerland	1.4	0.3	0.0	0.6	0.0	0.7
Japan	2.7	2.4	-0.4	1.7	0.1	1.8
Asia ex Japan	1.8	2.4	0.9	2.4	0.5	2.5
China	0.4	1.3	1.0	1.5	0.6	2.0
CEE	19.1	14.3	1.7	9.0	0.3	7.3
Latin America[2]	4.7	4.6	0.0	3.9	0.0	3.2
World	**4.0**	**3.6**	**0.4**	**3.0**	**0.1**	**2.8**

1) Regional and world aggregates revised to 2024 IMF PPP weights ; 2) Ex Argentina and Venezuela

Financial Markets

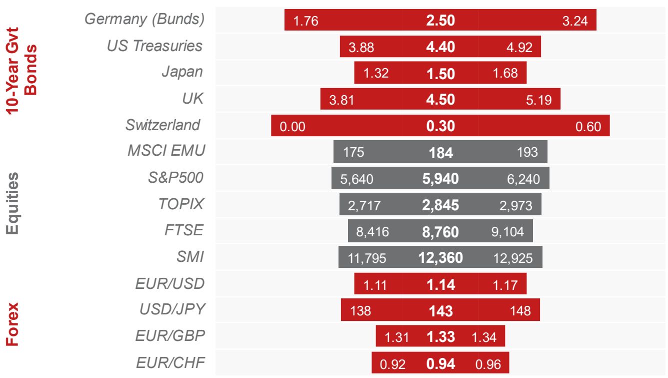
Key Rates	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
US (upper bound)	4.50	4.50	*4.21*	4.25	*3.83*	3.50	*3.36*
Euro area	2.25	1.75	*1.79*	1.75	*1.65*	1.75	*1.60*
Japan	0.50	0.50	*0.53*	0.50	*0.63*	0.75	*0.77*
UK	4.25	4.25	*4.09*	4.00	*3.88*	3.50	*3.64*
Switzerland	0.25	0.00	*-0.16*	0.00	*-0.32*	0.00	*-0.32*
10-Year Gvt Bonds							
US Treasuries	4.43	4.40	*4.46*	4.20	*4.49*	4.10	*4.58*
Germany (Bunds)	2.52	2.50	*2.58*	2.55	*2.63*	2.70	*2.72*
Italy	3.51	3.50	*3.56*	3.55	*3.64*	3.65	*3.81*
Spread vs Bunds	*99*	*100*	*98*	*100*	*101*	*95*	*109*
France	3.19	3.20	*3.24*	3.25	*3.30*	3.40	*3.42*
Spread vs Bunds	*66*	*70*	*66*	*70*	*67*	*70*	*71*
Japan	1.51	1.50	*1.60*	1.50	*1.66*	1.55	*1.78*
UK	4.68	4.50	*4.71*	4.35	*4.74*	4.20	*4.84*
Switzerland	0.26	0.30	*0.27*	0.35	*0.30*	0.40	*0.36*

**3-day avg. as of 30/05/25*
***ICE BofA (OAS)*

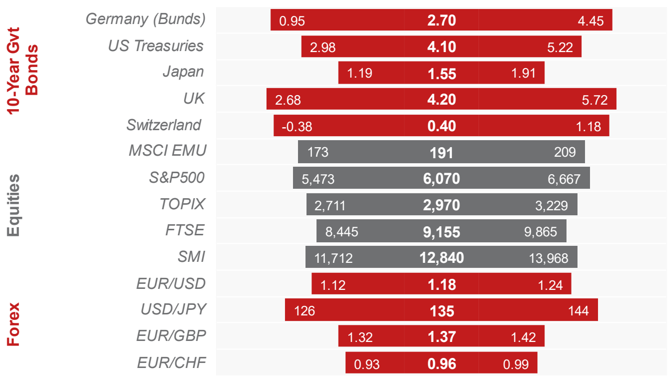
Credit Spreads**	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
EA IG Non-Financia	95	90		90		90	
EA IG Financial	101	100		100		100	
EA HY	329	330		330		330	
EM Sov. (in USD)	231	250		260		260	
Forex							
EUR/USD	1.13	1.14	*1.14*	1.16	*1.15*	1.18	*1.16*
USD/JPY	144	143	*143*	141	*142*	135	*139*
EUR/JPY	164	163	*163*	164	*163*	159	*162*
GBP/USD	1.35	1.33	*1.35*	1.35	*1.35*	1.37	*1.35*
EUR/GBP	0.84	0.86	*0.85*	0.86	*0.85*	0.86	*0.86*
EUR/CHF	0.93	0.94	*0.93*	0.95	*0.92*	0.96	*0.91*
Equities							
S&P500	5,904	5,940		5,920		6,070	
MSCI EMU	182.3	184.0		186.0		191.0	
TOPIX	2,794	2,845		2,890		2,970	
FTSE	8,738	8,760		8,910		9,155	
SMI	12,200	12,360		12,670		12,840	

Forecast Intervals

3-Months Horizon*



12-Months Horizon*



**Forecast ranges of ±1 stdv. centred around point forecasts; based on historical volatilities; length of bars indicative only*

Imprint

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Head of Research:	**Vincent Chaigneau**
Head of Macro & Market Research:	**Dr. Thomas Hempell, CFA**
Team:	**Elisabeth Assmuth |** Research Operations
	Elisa Belgacem | Head of Cross-Asset Quant & Dev, Senior Credit Strategist
	Radomír Jáč | GI CEE Chief Economist
	Jakub Krátký | GI CEE Financial Analyst
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