GENERALI ASSET MANAGEMENT

Market Perspectives

Independence days

September 2025

GenAM Macro & Market Research

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

- **President Trump has intensified pressures for lower rates and attempts to dismiss a Fed Governor on disputed grounds, leaving the Fed's independence under threat.**
- **The US yield curve is likely to steepen further and the USD to trend weaker amid a likely resumption of Fed rate cuts, a weakening labour market and worries about fiscal dominance in future Fed decisions.**
- **By contrast, further ECB cuts are now unlikely as the US/EU trade deal has reduced tail risks and surveys point to economic green shoots into the autumn.**
- **The air for risk assets is getting thinner as US equities reached all-time highs and EUR Credit spreads have approached post-GFC lows. That said, global economic resilience, fresh Fed rate cuts and easing tail risks from trade disputes favour tactical overweights in Credit and (to a lesser extent) in Equities.**

Content

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Global View – Independence days

Thomas Hempell

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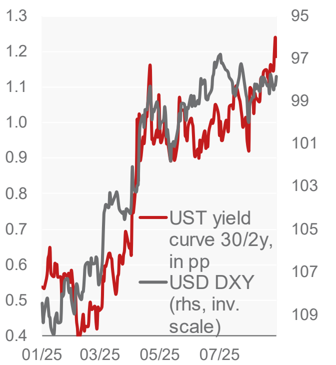
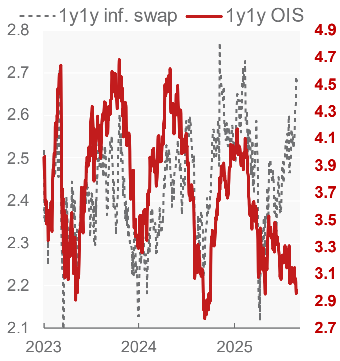
US president Trump sharply intensified his attacks against the Fed by dismissing Fed Governor Lisa Cook. She refuses to step down, though, and the ensuing legal clash may last for months. If Trump succeeds, his appointees may form a majority in the Fed's board. These efforts happen amid continuous attacks by Trump against Fed Chair Powell for not lowering rates and following the firing of the BLS chief following the release of a downbeat payroll numbers.

US yield curve and USD



Source: Datastream, GenAM

US CPI swap vs. OIS



Source: BBG, GenAM

Trump's interventions benefit short-term US rates on the likelihood of a more dovish Fed. But USD and long-dated Treasuries are suffering from fears that a politicized Fed may run the economy hot, with higher inflation potentially debasing the currency and bonds. A striking gap has opened between falling rates expectations and rising inflation swaps (see charts). Thus far, market reactions have been muted, possibly reflecting confidence that US checks and balances will prevent a fast institutional erosion. But the coming weeks may prove pivotal for the Fed's independence.

Meanwhile, headwinds to the US labour markets intensify. Tighter supply from immigration curbs are partly to blame, but surveys point to easing labour demand as the main worry. At Jackson Hole, Powell opened the door for resuming rate cuts in September, even though key inflation and payrolls data for August are still due. Amid Trump's attacks, fears of falling behind the curve may have grown. We stick to our forecasts of cumulated 100bp rate cuts by the Fed by H1/2026. By contrast, receding trade war risks after the EU/US trade deal and solid surveys (Ifo, PMIs, ZEW) suggest that another ECB rate cut is no longer likely.

10-Year Gvt Bonds	Current*	3M	6M	12M
US Treasuries	4.26	4.20	4.15	4.10
Germany (Bunds)	2.73	2.80	2.85	2.95
Credit Spreads**				
EA IG Non-Financial	77	75	75	75
EA IG Financial	81	80	80	80
Forex				
EUR/USD	1.16	1.17	1.19	1.21
USD/JPY	148	146	143	135
Equities				
S&P500	6462	6455	6405	6500
MSCI EMU	185	185	187	191

**3-day avg. as of 27/08/25 **ICE BofA (OAS)*

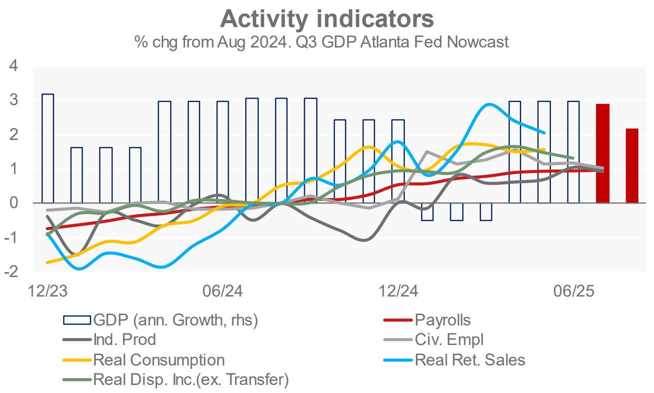
Mild tilt towards risk assets, even as air gets thinner

The US yield curve is set to steepen further as rate cuts support the short end while long tenors are constrained by worries about mounting political Fed interference. We favour a neutral stance on EUR duration. Markets are still pricing too high ECB rates in the long run, core inflation is easing and fresh political woes in France may benefit Bunds. That said, with further ECB rate cuts no longer on the cards, elevated net issuance amid the German fiscal boost and signs of some recovery towards year-end, we would not be surprised to see even a mild uptick in Bund yields.

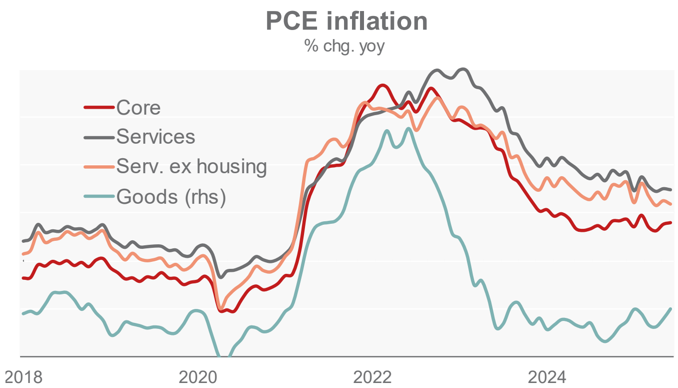
The air for risk assets is getting thinner as US equities reached new all-time highs and EUR Credit spreads approach post-GFC lows. That said, global economic resilience, further Fed rate cuts and easing tail risks from trade disputes may still render support to Equities and Credit. The US reporting season proved strikingly strong, even if European results were more mixed. Our internal machine-learning models still points to some more Equity tailwinds. We keep a moderate preference for Equities and Credit for now, financed by underweights in Cash and, more mildly, in Government Bonds. Political woes in France, where a confidence vote is likely to topple PM Bayrou and his consolidation budget on Sept. 8, will burden French OATs and will slow, though unlikely reverse, the further ascent in the EUR/USD.

United States

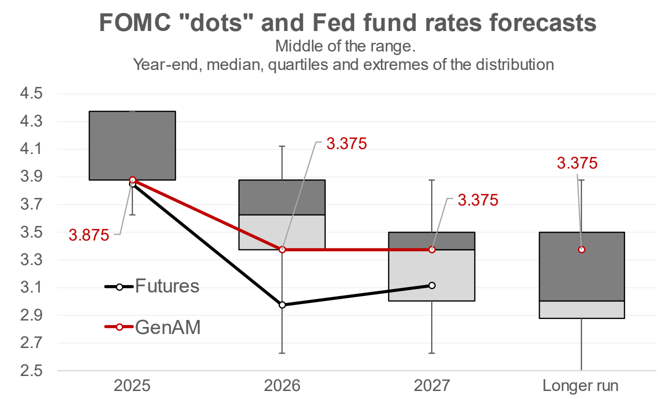
Paolo Zanghieri



Source: BEA, BLS, Atlanta Fed, GenAM



ource: BEA, GenAM



Source:Federal Reserve Board, Datastream,GenAM estimates

- **Data indicates slower activity during the summer. We expect a relatively weak Q4, followed by a modest rebound. Growth is projected to average 1.7% this year and next.**
- **CPI and PPI data are beginning to reflect the impact of tariffs on goods, services inflation move sideways but surveys point to upward pressures. Despite a milder-than-feared tariff impact, we anticipate core PCE inflation to end the year at just above 3% yoy.**
- **Weak employment prospects are likely to push the Fed towards a rate cut in September, followed by an additional 75bp easing by Q1 as we assume that its independence remains intact for the time being.**

Following tariff-induced volatility in H1 data, activity in the second half of the year is showing increasingly strong signs of losing momentum. In July, consumption slowed to a 2.1% yoy growth rate, the lowest since January 2024, aligning with deteriorating consumer sentiment. Industrial production and durable goods orders were also weak. However, the most concerning signal was the subdued employment growth in July - only 73k jobs, with virtually zero private sector job creation - and significant downward revisions to the previous two months' data. While unemployment remains low (4.2%), this is largely due to sluggish labour force growth. We expect activity to weaken during Q3 and stage a mild rebound in Q4 and H1 next year, on reduced tariff uncertainty, slightly lower borrowing costs, and the effects of tax cuts on consumption and capital expenditure. Nevertheless, tariffs will keep growth below trend: 1.7% this year and next, with unemployment peaking at 4.5% by mid-2026.

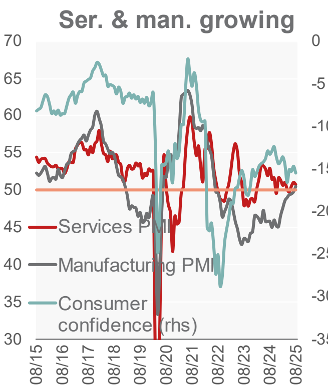
Inflation data remains concerning. The rise in imported goods prices is now evident in official statistics. Services inflation, despite slower housing cost growth, continues to move sideways, but price pressures are building up according to the latest busienss surveys. Nowcasts suggest core PCE inflation will edge up to 3% in the coming months and end the year slightly above that level.

Fed to cut by another 100 bps

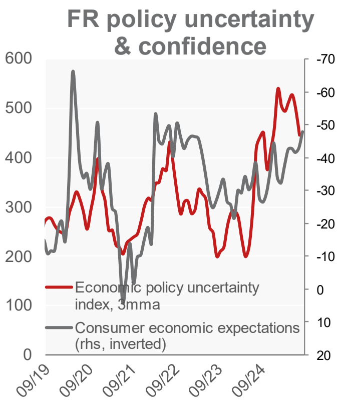
At Jackson Hole Chair Powell signalled a dovish shift in response to disappointing employment data. A September rate cut now appears highly likely, followed by another in December and two more in Q1 2026. Markets are pricing in deeper easing – more than three cuts. However, we believe that current growth and employment conditions do not justify a policy rate below the Fed's estimate of the neutral level. Moreover, we do not expect the administration to successfully replace enough FOMC members in the near term to significantly shift policy in a dovish direction.

Euro Area

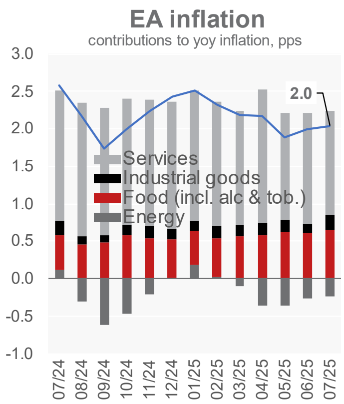
Martin Wolburg



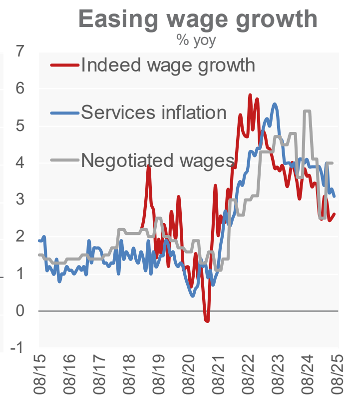
Source: Datastream, GenAM



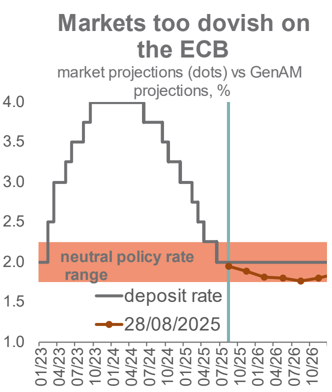
Source: Datastream, GenAM



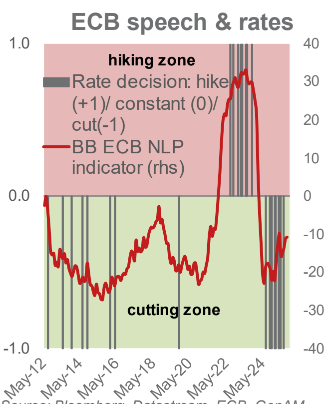
Source: Datastream, GenAM calculations



Source:Datastream, indeed, GenAM



Source: Datastream, ECB, GenAM calculations



Source: Bloomberg, Datastream, ECB, GenAM

- **The latest data were a mixed bag with hard data lagging behind more optimistic surveys, but we see no need to adjust our 2025/26 forecasts of 1.1%/1.3%.**
- **Disinflation is proceeding and we expect headline inflation to settle below the 2% threshold.**
- **Given less dovish comments by Governing Council (GC) members amid a constructive view on activity we now expect the ECB to be finished with rate cuts.**

Recent economic confidence indicators continued to surprise positively nurturing the expectation of improving economic activity. Noteworthy, PMI sentiment now signals expanding output also in the much-rattled manufacturing sector for the first time since June 2022. That said, forward-looking components generally were a mixed bag and hard data confirmed that the recovery will be cumbersome. For instance, in June industrial production weakened (-1.3% mom) and retail sales (0.3% mom) were weaker than thought. A note of caution also concerns Germany. Its Q2 GDP growth rate was revised down (from -0.1% qoq to -0.3% qoq) and the latest ifo rose solely on the expectations component as the current situation did not improve. There is some risk that euro area GDP could have stalled in Q2 instead of having risen by 0.1% qoq. Overall, the dataflow is in line with our view of very muted activity over the summer.

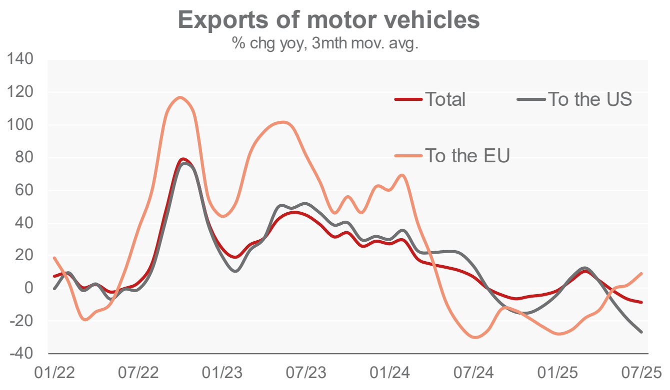
We continue to look for improving activity in the last quarter of the year backed by German fiscal stimulus starting to kick in, past monetary policy easing unfolding and the global manufacturing recession having come to an end. The formalization of the US-EU trade agreement helps to reduce uncertainty. But some risks remain: the likely government breakdown in France following a confidence vote on Sep 8 and the unclear path of Dutch politics after a coalition partner left the caretaker government will keep headwinds from policy uncertainty up. Acknowledging these downside risks we stick to our annual euro area growth forecasts of 1.1%/1.3% for 2025/26.

We now expect the ECB to stay on hold

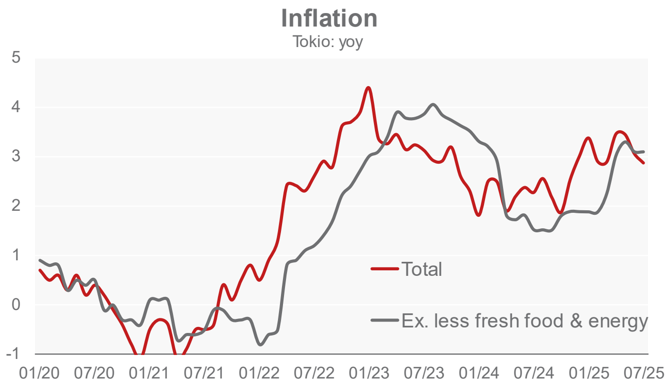
Following the decision of the ECB to keep rates unchanged at its July meeting, GC members recently slowed down their degree of dovishness. Moreover, while underlying inflation is clearly trending down and the headline rate set to stabilize below 2%, the latest data surprised on the upside and the downward deviation of inflation from target in 2026 to as much as 1.4% in Q1/2026 according to latest ECB projections looks too high. We expect the forthcoming updated macro projections to account for this and the ECB to stay on hold on Sep 4. Thereafter, improving activity will reduce the need for a rate cut further so that we unlike to markets do not look for further cuts in this cycle.

Japan

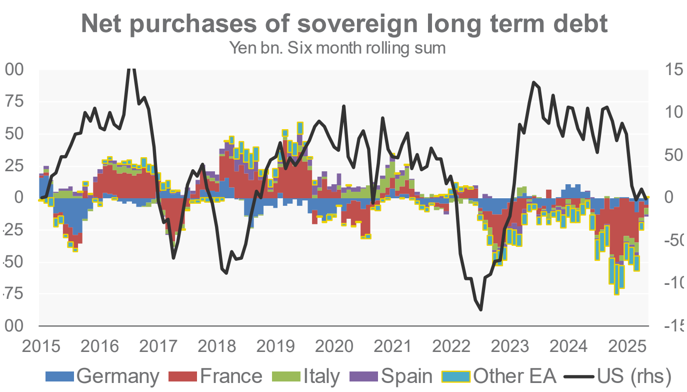
Paolo Zanghieri



Source: Ministry of Finance, GenAM



Source: Datastream, GenAM



Source: Bank of Japan, GenAM

- **We expect growth to remain subdued as weakening exports drag on investment. Recent data showed a marked reduction in value export to the US, driven by falling prices.**
- **Inflation remains high, with the core rate above 3% in July due to sticky services. Food prices offset the fall in energy, keeping the overall rate at 2.8%.**
- **Despite high inflation, weak economic activity and domestic and global policy uncertainty prevent the BoJ from raising rates. We expect the next hike for the beginning of 2026.**

Weak external demand and cautious capital expenditure continue to weigh on activity. Despite a recent trade agreement with the US, elevated global trade uncertainty limits the potential for a significant rebound. Indeed, Japan's external sector continues to show signs of weakness. July trade data revealed a -2.6% YoY decline in export value. Passenger car exports to the US declined nearly by 28%, with prices down -18% YoY, indicating that much of the additional 25 percentage point tariff is being absorbed by lower pricing. Surveys point to a decline in July industrial production after the +2.1% increase in June. The slowdown reflects weaker external demand and reduced output in key sectors such as autos and chemicals.

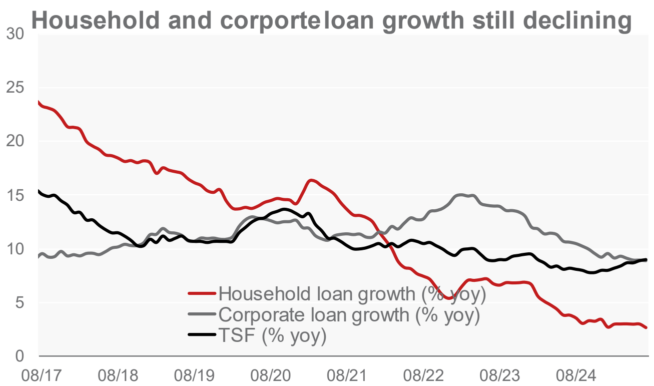
Inflation remains elevated, driven by persistent food price increases. In July, core CPI (excluding fresh food) rose by 3.1% yoy, while the new core CPI (excluding fresh food and energy) held steady at 3.4% yoy. Energy prices turned negative, reflecting lower fuel import costs. Private-sector services inflation decelerated slightly, and rent continued its gradual upward trend. Sticky service inflation will prevent any meaningful descent of the overall rate short term

BoJ forced to hold rate rises

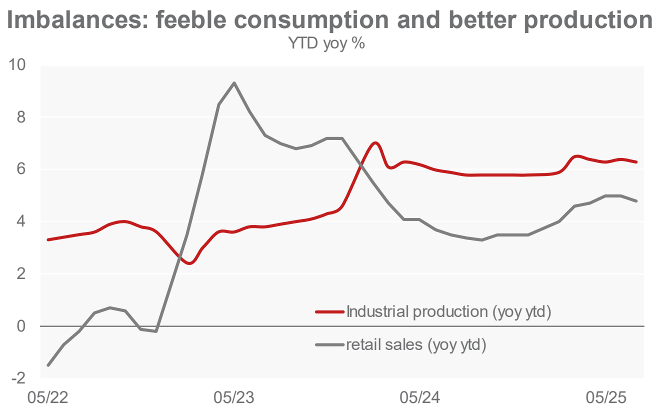
The Bank of Japan maintained its policy rate at 0.5% in July. Despite upgrading its inflation forecast for FY2025, the central bank remains cautious, citing expectations of lower inflation in FY2026. Political uncertainty following the July upper house elections further complicates the outlook, making additional rate hikes unlikely before the end of the year. The rise in JGB yields and worries about US policies led to a sharp contraction in net purchases of Treasuries, while outflows from EU securities moderated.

China

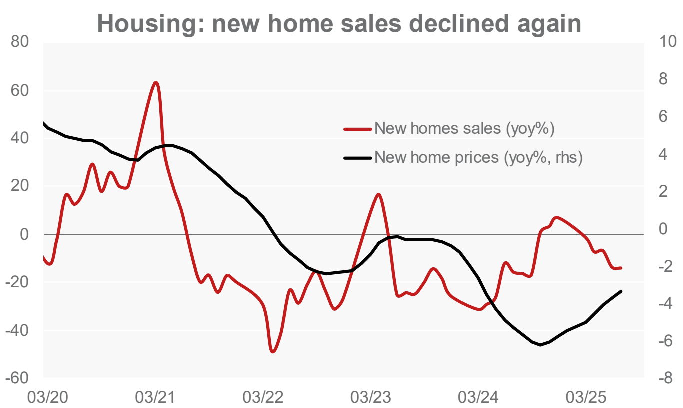
Guillaume Tresca



Source: Bloomberg, PBoC, GenAM



Source: Bloomberg, NBC, GenAM



Source: Bloomberg, NBS, GenAM

- **The growth outlook has brightened vs. a few months ago even if the momentum has been slowing down.**
- **Policymakers keep a reactive approach. New consumption measures have been announced. We do not expect new large fiscal support.**
- **Real estate market has been weakening again. Local provinces have eased several measures. A full involvement of the central government is needed.**

The outlook for the Chinese economy has stabilised at a brighter level than earlier in the year, even though the latest high-frequency economic indicators have been mixed, and structural challenges remain. The diagnosis remains the same: support internal demand to achieve a better balance between consumption and production and fix the real estate market.

Indeed, after steady growth in the first half of the year, a slowdown in growth momentum was expected, but macroeconomic indicators softened more than expected in July, with weaker retail sales and a monthly contraction in bank lending. Investment has declined too. The anti-inflation campaign and the initial impact of US tariffs are the main culprits.

Policymakers will continue to stimulate demand and take a reactive approach to data. The July Politburo meeting made it clear that growth is the top priority, with a focus on structural reforms *i*n the second half of the year to support consumer sentiment. This means that counter-cyclical fiscal support will continue, but we do not expect large-scale support like that seen in September 2024, only marginal adjustments and an acceleration in the deployment of previous fiscal easing measures. Indeed, the fiscal deficit over the past seven months has only reached 47% of the 2025 budget. Macro policies also remain supportive, and in mid-August, policymakers announced new measures to boost consumption, including interest rate subsidies on consumer and selected service sector loans. These new measures resemble an interest rate cut. This reduces the need for further direct monetary easing. Similarly, the PBoC sounded less dovish in its Q2 monetary policy report and thus we now anticipate only 20 bp of monetary easing on the key rate by the end of the year.

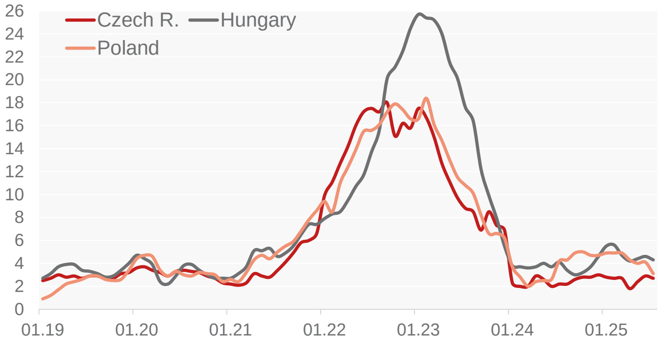
Fixing the real estate market remains key to supporting consumption and mitigating deflationary pressures. Unfortunately, renewed weakness is observable. Local provinces (e.g. Shanghai) have eased several measures, but support is too focused on the demand side. . A clear involvement of the central government and SOEs will be needed.

Central and Eastern Europe

Radomír Jáč

Headline inflation

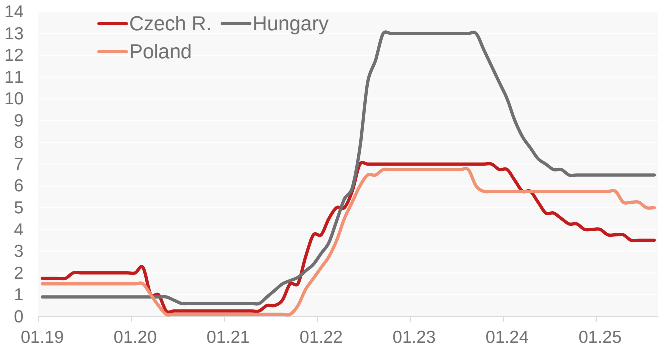
CE-3 countries (CPI yoy in %)



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

Monetary policy interest rates

CE-3 countries (end-of-month level, in %)



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

Main Forecasts

Czech Republic	2023	2024	2025f	2026f
GDP	0.2	1.1	2.2	2.0
Consumer prices	10.7	2.4	2.6	2.1
Central bank's key rate	6.75	4.00	3.25	3.25
Hungary	**2023**	**2024**	**2025f**	**2026f**
GDP	-0.8	0.5	0.7	2.4
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	3.2	3.0
Consumer prices	11.4	3.7	3.7	3.2
Central bank's key rate	5.75	5.75	4.50	3.75

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

- **Headline inflation moderated in July across the CE-3. Polish CPI reached the target range and may decline further, while Czech and Hungarian CPI may stabilize at their current levels in the near term.**
- **The short-term monetary policy outlook in the CE-3 depicts either a slight decline in interest rates or their stability. Poland may cut rates in September while Czechia is likely to stay on hold. The outlook for Hungary is less certain but we expect rate cuts to resume by the end of 2025.**

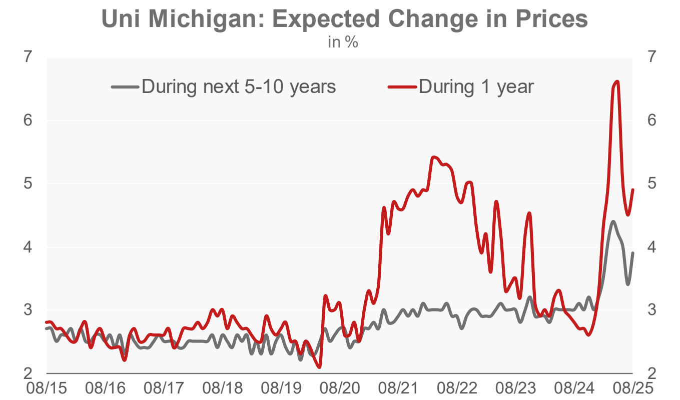
Headline CPI moderated across the region in July: mainly in Poland, where it fell from 4.1% to 3.1% yoy and reached the inflation target range (set at 2.5% yoy +/-1pp) for the first time since June 2024. The decrease in Polish inflation was mainly driven by a cut in the natural gas price for households: CPI may ease further in the coming months to slightly below the 3% yoy level. Czech headline inflation decreased from 2.9% to 2.7% yoy in July and it stabilized within the target range (2% yoy +/-1pp). We expect Czech CPI around 2.6% yoy on average in H2. Headline CPI in Hungary decreased from 4.6% to 4.3% yoy and remains above the target range set at 3% yoy +/-1pp. The target range will probably not be reached until December at the earliest.

Poland is the only candidate for a rate cut in September

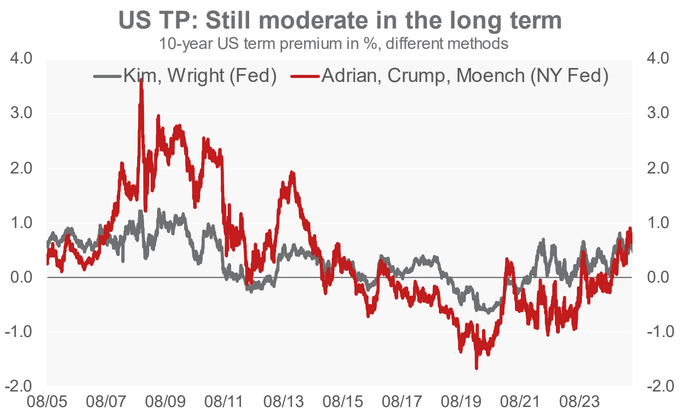
The Czech CNB kept its key rate at 3.50% in August, which was the second on-hold decision in a row (the last cut by 25 bps came in May). We expect rates to remain unchanged also in September. The CNB says that ongoing inflation pressures currently preclude a further rate cut. However, we keep our call for a final cut to 3.25% in November, as the stronger CZK and a weaker GDP growth (vs. the CNB's forecast) may provide room for a slight policy easing. In Hungary, the MNB kept its base rate at 6.50% in August. The MNB maintains a cautious approach, but the mix of the weak GDP growth, relatively low inflation and a strong forint should lead to resumption of rate cuts in the rest of 2025. While we do not rule out a 25 bps cut at the next meeting scheduled for late September, we must note that the MNB has not yet indicated a return to easing its policy. The Polish NBP cut its key rate by 25 bps to 5.00% in early July. There was no monetary policy meeting in August. Comments from the MPC signal further rate cuts, but the extent of rate cuts in the rest of the year remains unclear. We expect the NBP to cut interest rates twice by the end of 2025, with the next reduction very likely to occur in September.

Government Bonds

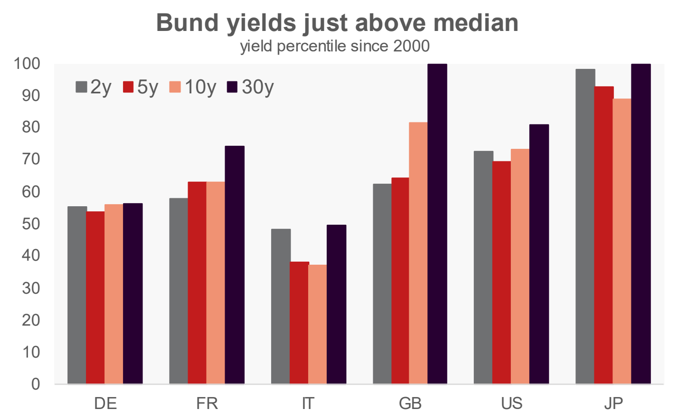
Florian Späte



Source: Bloomberg, GenAM



Source: Bloomberg, GenAM



Source: Bloomberg, GenAM

- **The transatlantic yield spread continued to tighten in August, driven by falling US yields. Against the backdrop of ongoing concerns about the fiscal situation, yield curves steepened further across the globe.**
- **Both trends are likely to continue in the coming months. In the euro area, there is some scope for yields to rise given that we no longer expect the ECB to cut its key rate, and the economy is gaining momentum towards year-end. In the US, however, the Fed is expected to resume rate cuts in September. Additionally, the US term premium has further upside potential against the backdrop of supply risks and pressure on the Fed.**
- **Euro area non-core government bond spreads tightened until mid-month, when news from France caused some volatility. We do not expect any significant broad-based spread widening in the short term, but we reiterate our long-held view caution vs. French OATs.**

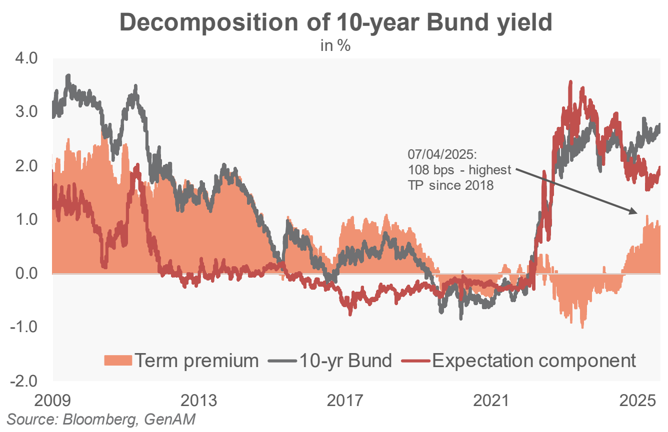
In August, the trend towards steeper yield curves that began in 2023 continued. While the US experienced a bull steepening as the Fed signalled a resumption of key rate cuts, the Bund curve underwent a bear steepening, with the 30-year Bund yield reaching its highest level since 2011.

For the time being, we assume that the trend of global yield curve steepening will continue. Due to various challenges, such as increased defence spending and the green transition, or a lack of political will, budget deficits in developed markets will remain high in the medium term, resulting in an increased supply of government bonds. While the Fed is set to phase out its Quantitative Tightening at the beginning of next year, the ECB is expected to continue reducing its balance sheet in the coming years, which will further increase the supply/demand ratio for government bonds. In the US, mounting pressure from President Trump – including his dismissal of Fed Governor Cook – is causing financial market participants to question the independence of the central bank.

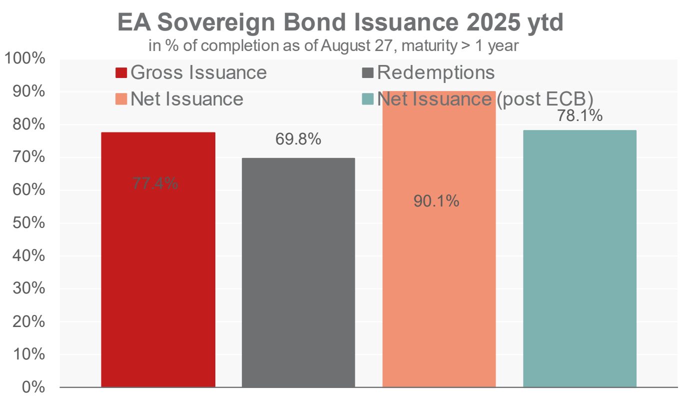
Against this backdrop, it is notable that the term premium has not risen more sharply on both sides of the Atlantic. In fact, it has largely remained at the same level as in spring. While the steeper yield curve in the euro area is likely to be mainly due to the long end of the curve, we also see potential for a decline at the short end of the curve in the US, given the Fed's recent more dovish tone. For the time being, we are sticking to our forecasts of a total key rate cut of 50 bps in both 2025 and 2026, depending on further economic developments.

Government Bonds

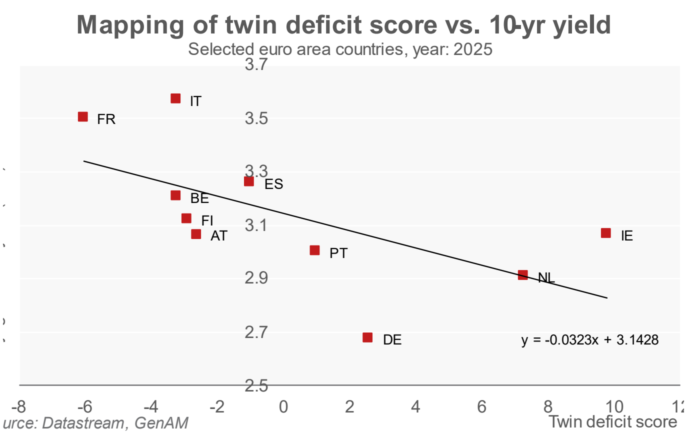
Florian Späte



Source: Bloomberg, GenAM



Source: Datastream, Bloomberg, GenAM



Source: Datastream, GenAM

On balance, we see some downside potential for 10-yr US yields. While higher tariffs and reduced immigration may weigh on growth, elevated inflation expectations over the next 1-2 years could become entrenched, increasingly affecting the long end of the curve. In a risk scenario, yields could fall further if the Treasury shortens supply duration or if regulations boost demand. In our base case, we expect 10-yr yields to decline to 4.20% over three months and to 4.10% over one year, with no drop at the very long end.

As previously noted, we also anticipate the potential for the Bund yield curve to steepen. However, this is likely to occur in a more bearish market environment as we assume that the ECB will not lower key rates any further (the market is pricing in a 75% probability of a final key rate cut by summer 2026). Additionally, following a weak start to the year, the economy is expected to regain momentum towards the end of the year. The EU's trade agreement with the US has also eliminated tail risks. Provided the political situation in France does not escalate further (see below), there is scope for moderately higher Bund yields. On a 3-mth (12-mth) horizon, we expect 10-year Bunds to yield 2.80% (2.95%).

OATs are fundamentally cheap, but not yet a buy

In a calm market environment, euro area non-core government bond spreads narrowed further, reaching new multi-year lows against Bunds. However, French PM Bayrou's decision to call a vote of confidence on 8 September to secure approval for the austerity measures triggered volatility. With the expected opposition votes, the Bayrou government is likely to fall. OATs' underperformance also modestly affected other euro area non-core bonds.

Ultimately, the OAT/Bund spreads' future will hinge on the next government's stance on budget consolidation. If President Macron appoints a new prime minister, we expect only limited further widening of OAT spread, as OATs are already fundamentally undervalued. Our twin deficit score (a weighted average of current, past, and expected future twin deficits, see chart) supports this, especially when factoring in rating level and debt ratio.

However, if new elections are called, uncertainty will increase, and the OAT/Bund spread is likely to widen beyond the level reached in December 2024 (88 bps) at least temporarily. Overall, we continue to recommend caution regarding OAT exposure, not least due to the possibility of a downgrade by Fitch on 12 September.

Nevertheless, the primary market will reopen in September. In particular, Germany, France and Italy will place bonds until the end of the year. We expect the process to run smoothly against a backdrop of a generally favourable risk environment.

Credit

Elisa Belgacem

- **Credit spreads have remained supported over the summer months, underpinned by low supply and resilient fundamentals. Although valuations are tight, we expect this trend to persist.**
- **We maintain a preference for investment-grade (IG) over high-yield (HY) credit, given the limited margin for error embedded in current valuations. Nonetheless, we retain a constructive view on both asset classes.**
- **Our recommendation is to either extend duration within IG non-financials — targeting the 5–7 year maturity bucket — or to favour subordination risk over credit risk. In this context, AT1 corporate hybrids continue to offer more attractive risk-adjusted returns than BB-rated bonds.**
- **Given the higher share of French risk within financials compared to non-financials, and considering the current low yield differential and limited visibility, we are reverting to a preference for non-financials.**

Over summer, credit spreads have reached new tights due to the absence of negative surprise on the trade war front.

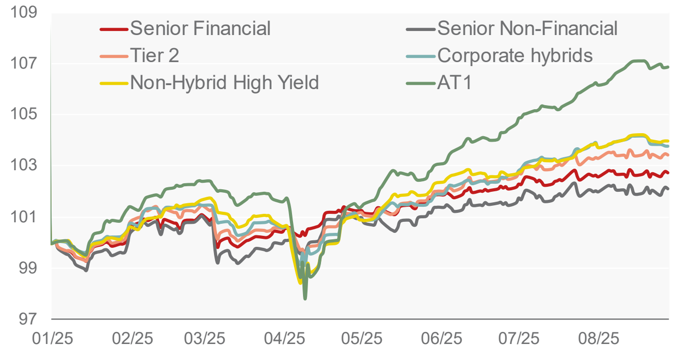
Rich valuations but strong technical to persist

Default rates remain stable in the United States and are rising slightly in Europe, albeit from low levels. While fundamental trends are mildly negative, they remain broadly under control, offering investors a reasonable outlook for total returns over the medium term. In relative terms, corporate bond supply is expected to remain significantly lower than that of sovereign issuance. This dynamic reinforces our longstanding preference for credit over government bonds, particularly in the current environment.

Favour non-financials over financials on French risk

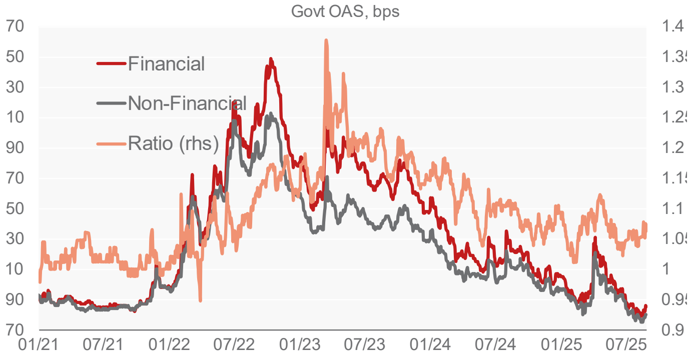
Investment-grade spreads are currently at their tightest levels since 2018, making valuations less compelling. However, carry remains attractive, and we anticipate spreads to remain range-bound in the coming months. This supports a continued focus on carry strategies. We favour European credit over US counterparts due to wider spreads and a structurally more defensive profile. Given the heightened political uncertainty in France, we are shifting back to an overweight stance on non-financials versus financials. This reflects both the higher concentration of French risk within financial indices and the stronger transmission mechanism from sovereign to credit risk in the financial sector. Nonetheless, we continue to favour AT1 instruments as our preferred risk enhancement strategy.

EUR Credit market performance by segment
Total return base 100 : 01/01/2025



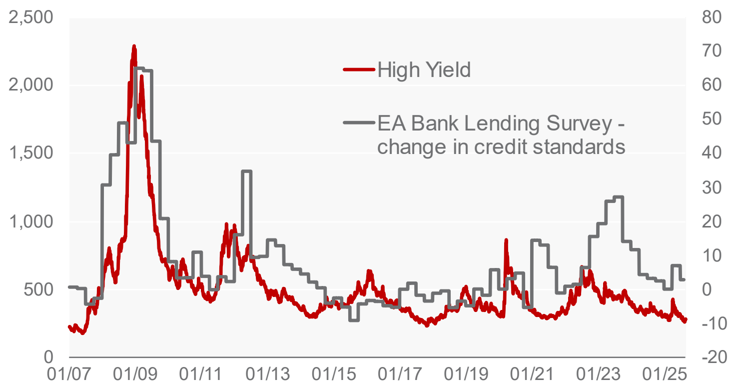
Source: Bbg, BofAML indices, GenAM

Fins vs Non-Fins
Govt OAS, bps



Sources: Bloomberg, BofAML indices, GenAM

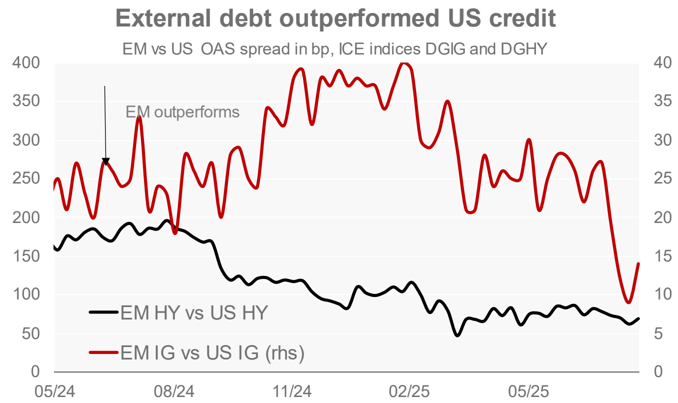
EUR Credit Spread vs Credit Standards
Govt OAS, bps



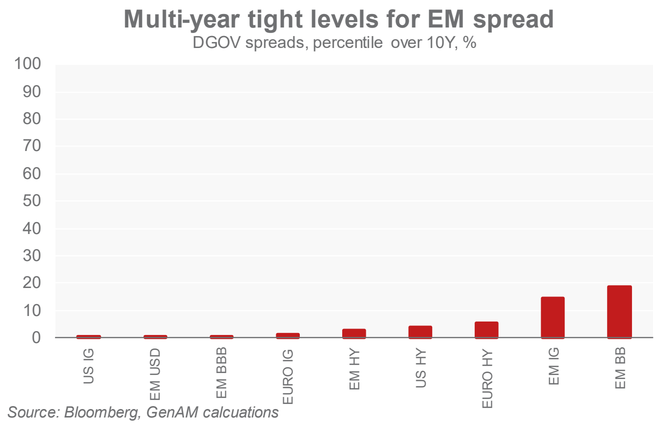
Source: Bloomberg, BofAML indices, GenAM

EM sovereign bonds

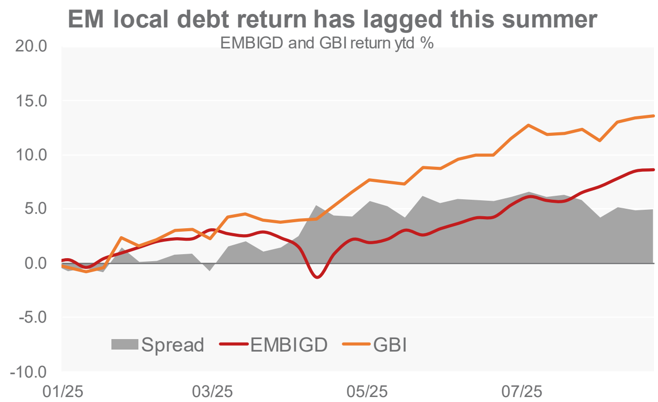
Guillaume Tresca



Source: Bloomberg, ICE, GenAM



Source: Bloomberg, GenAM calcuations



Source: Bloomberg, JP, GenAM

- **The EM fixed income setup has remained positive with limited changes over the past month. We expect return to remain positive, even if valuations have turned increasingly tight.**
- **We favour local debt over external debt and avoid the highest beta parts of the EM complex. We focus on relative value trades.**
- **For external debt, returns will be driven by duration and carry rather than spread compression. For EM local debt, the set up has improved after the EM FX consolidation. We still like high yielders.**

The summer has confirmed the positive outlook for EM fixed income, with minimal changes to the current environment. EM fixed income continues to benefit from resilient macroeconomic indicators and a risk-on environment, as well as diversification away from USD assets and strong carry. Tariff uncertainties have receded considerably, and their macroeconomic impact has so far been manageable. Although the outlook remains positive, we are maintaining a tactical and selective approach as valuations have reached multi-year highs. We avoid parts of the EM complex with the highest beta and favour relative value trades. Similarly, we favour local debt over external debt, as valuations are less stretched and idiosyncratic country factors can generate alpha. This asset class has benefited the most from renewed portfolio inflows and can benefit from a virtuous circle where better returns attract further inflows.

External debt: favour relative value and duration.

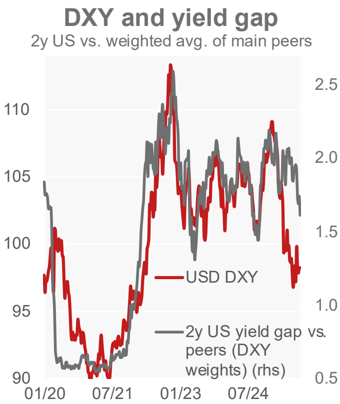
We still expect a positive return, but the next stage of the rally will be driven more by duration and carry than by compression of the spread. Indeed, we maintain a moderate negative spread bias as valuations are tight by all metrics. Despite positive summer seasonality, spreads failed to tighten in August, and the upcoming issuance season will have a negative impact while spreads are close to post-2008 lows. Likewise, both EM IG and HY spreads have caught up with US credit, making them less attractive. We favour BB names with IG upgrade potential, such as Morocco, Serbia, and the Ivory Coast. We favour Western Balkans EUR debt.

Local debt: a better set up

The consolidation of EM FX during the summer offers a more favourable outlook for local debt. Both rates and FX should contribute positively to returns in the months ahead. We still favour the front end of the local yield curves, given the high level of real yields. In terms of regions, we see more value in CEE and Brazil than in Asia. In FX, we hold our positive view on high-yielders (the TRY, EGP and the BRL).

Currencies

Thomas Hempell



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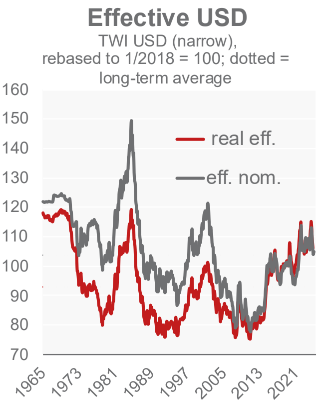
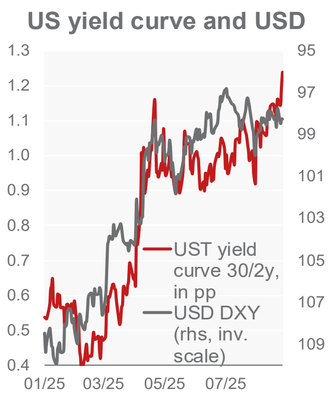
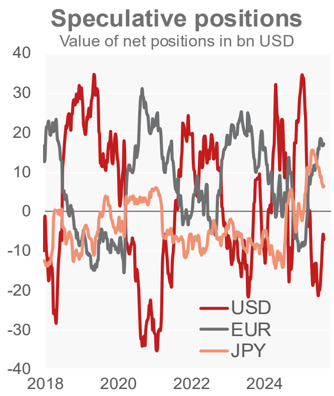


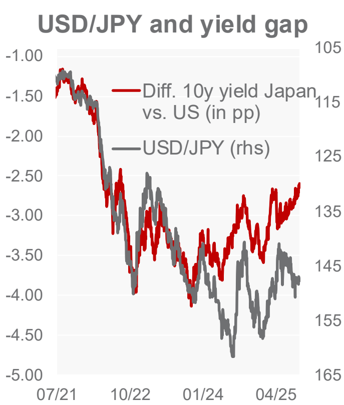
Source: BIS, Datastream, GenAM



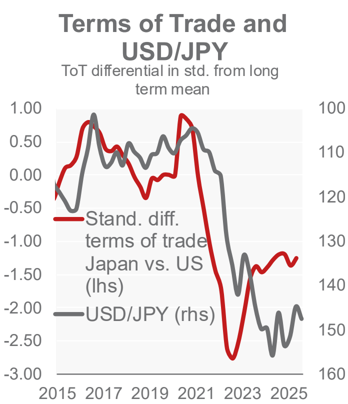
Source: Datastream, GenAM



Source: CFTC, Datastream, GenAM



Source: Datastream, GenAM calculations



Source: Datastream, GenAM

- **Amid signs of labour market weakness, the Fed is set to resume its rate cut cycle in September. A narrowing transatlantic rate gap will keep the outlook for EUR/USD geared to the upside.**
- **Intensifying attacks on the Fed's independence and the risk of fiscal dominance keep long-dated US Treasuries and the USD under pressure, adding to investor's incentives to diversify their USD holdings.**
- **The JPY remains fundamentally cheap. While the correlation with yields has been overshadowed by political uncertainties in Japan, we expect the USD/JPY to follow the guidance from yield differentials lower.**

The USD's bounce from a the hawkish FOMC in July proved short-lived. After the poor US labour market report released in early August, Fed Chair Powell largely gave a nod to a September rate cut at Jackson Hole. Downside risks to employment were rising and "they can do so quickly". Meanwhile, the ECB now looks done with its cutting cycle. A shrinking transatlantic yield gap favours further moderate gains for the EUR/USD (top left chart).

Admittedly, the likely fall of the French government in a confidence vote on Sept. 8 is a burden for the EUR/USD. And US policy uncertainty has already brought about an almost 10% discount on the USD. Yet. pressures on the USD are likely to prevail by year-end. While the US current account deficit requiring continuous capital inflows, growing reluctance by investors to fill these financing will require retracement of the still dear USD (top right chart), with trimmed USD short positions less of a hurdle (mid right).

USD suffering from attacks on Fed independence

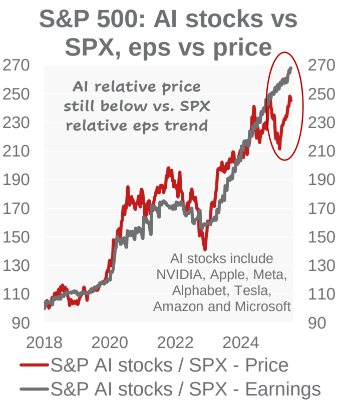
Trust in the USD and Treasuries may erode further following Trump's escalation of attacks on the Fed's independence. The announced dismissal of Fed governor Lisa Cook could lead to a protracted legal battle. However, the message of intimidation to Fed members who do not support Trump's demands for much lower interest rates will stick. And he may prematurely nominate a dovish successor to Chair Powell, whose term ends only in May 2026. The USD and long-dated Treasuries have been affected by these concerns (mid left chart), and more pain may be in the pipeline.

The JPY's decoupling from rate differentials is likely to prove temporary, as political and fiscal worries have weighed on the yen and accelerated a shift in speculative positions. But with the yen fundamentally very cheap, the BoJ still defying the global monetary easing trend and low oil prices boding well for Japan's terms of trade, we expect the yen to catch up with yield differentials, with the USD/JPY likely to take a leg lower by year-end (bottom charts).

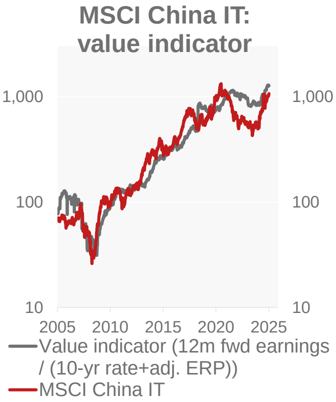
Equities

Michele Morganti and Vladimir Oleinikov

- **Equities advanced slightly despite headwinds from French politics. That said, US-EU tariff dispute seems clearer now, and broad financial condition measures remain overall supportive.**
- **Trends in both the VIX and policy uncertainty are currently reassuring, and investor positioning is above average but not bullish yet.**
- **EMU confidence indicators should help to underpin market multiples, supported by a good Q2 reporting season, especially in the US. The latter showed resilient margins and solid beats vs. consensus. Still, for both the US and EMU, we forecast earnings momentum to soften only slightly short term, with a recovery by year-end.**
- **Our earnings forecasts and ex-US valuations back decent returns in the next 12 months. Still, we prefer only a mild OW stance due to risks: US structurally rich valuation, pressure on 10-year yields (high government debt), Trump's induced volatility and already elevated global macro surprises.**
- **Tactically neutral on EU vs US and OW US IT. OW EMs, MDAX & EU small cap. Within EMs, prefer India, Korea, Poland, slight OW China & CH IT. On a mid-term view, diversify US into equally weighted SPX, Gold firms, AI phase 4 – productivity – and Uranium.**
- **EU sectors: OW Small vs Large Cap, Banks, A&D, Building Products, Construction, Food Retail, Insurance, Pharma, RE, Retailing, Semis. UWs: Auto, Durables, Energy, FBT, HPP, Media, Transport, Utilities.**



Source: Datastream, GenAM



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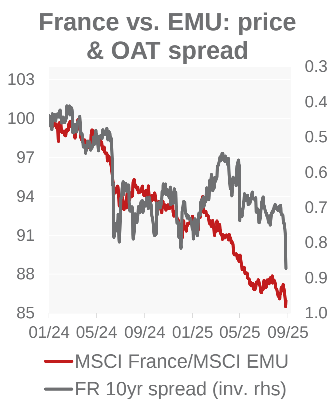

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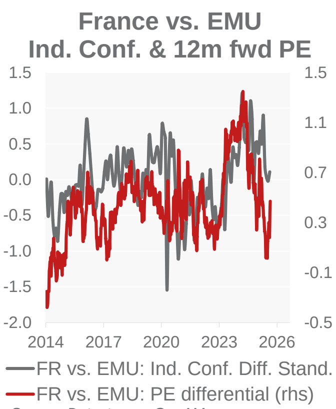

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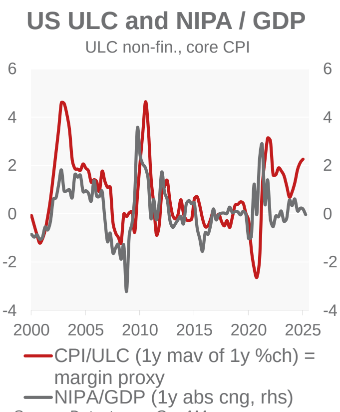

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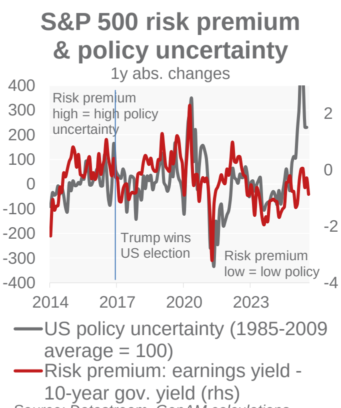
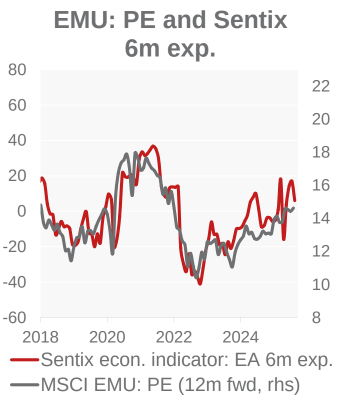


Source: Datastream, GenAM calculations

Equities rose further in August, with S&P 500 and other non-EA markets showing gains between 2% and 4%. US stocks were driven by strong tech earnings and investor enthusiasm around AI and digital infrastructure. The MSCI China (+4.5%) outperformed due to China's supporting policy and prolonged tariff truce. French politics is hurting sentiment again. French equities may underperform global peers in the near term, albeit the OAT spread is relatively high and CAC 40's relative PE vs. EMU much lower vs. 2024 peaks, also due to massive rel. EPS downgrade (-20% since 6/'24). Still, EA equities stand to benefit from greater clarity on US tariffs and Germany's more front-loaded fiscal bazooka. In August, we see positive signs from EA manufacturing PMI, increasing above 50 for the first time since July 2022. Both the Sentix and the IFO indicators remain overall supportive, too. Furthermore, trends in the VIX and policy uncertainty are supportive for equities as also our machine learnings models. Equity positioning has edged slightly above neutral but not stretched yet. Financial conditions remain broadly

Equities



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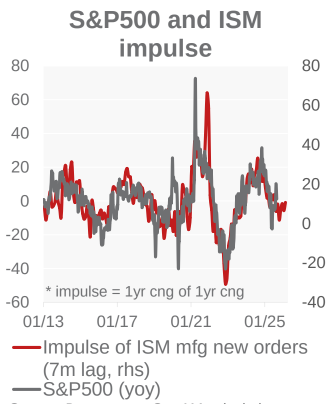


Source: Datastream, GenAM calculations

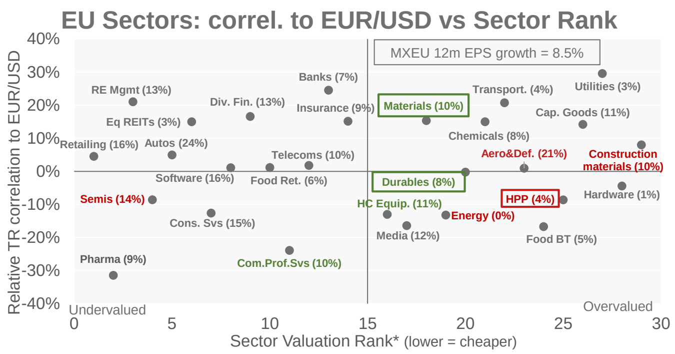
Analysis of the median stock: Q2 2025 reporting season

Median stock	Earnings Growth		Sales Growth		margin trend *		avail-ability
	Q1 2025	Q2 2025	Q1 2025	Q2 2025	Q1 2025	Q2 2025	Q2 2025
S&P	6.7 %	8.3 %	4.6 %	6.1 %	2.0 %	2.2 %	95.4%
Stoxx	4.2 %	2.1 %	4.3 %	1.6 %	(0.1)%	0.5 %	75.7%
Euro Stoxx	1.8 %	0.8 %	3.6 %	0.6 %	(1.8)%	0.2 %	83.9%

Median stock	Earnings Surpr		Sales Surpr		margin trend *		avail-ability
	Q1 2025	Q2 2025	Q1 2025	Q2 2025	Q1 2025	Q2 2025	Q2 2025
S&P	4.1 %	4.4 %	0.6 %	1.5 %	3.5 %	3.0 %	95.4%
Stoxx	3.6 %	2.5 %	0.3 %	(0.2)%	3.4 %	2.7 %	75.7%
Euro Stoxx	4.0 %	3.2 %	0.5 %	(0.3)%	3.5 %	3.5 %	83.9%

Note: numbers for Q1 are calculated only for the companies which have so far reported in Q2
proxy for margin trend = earnings growth - sales growth

Source: Bloomberg, GenAM calculations



*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 27/08/2025

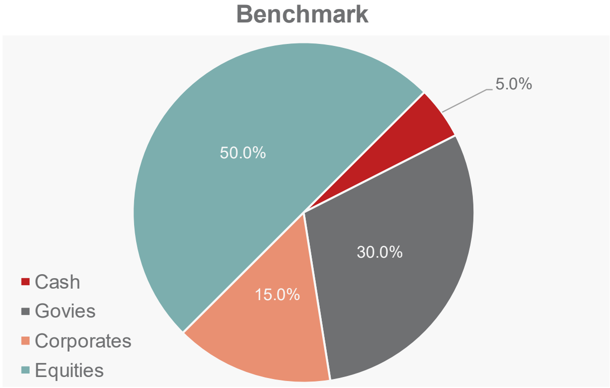
accommodative, with Fed rate cuts likely in September: M2 impulse, credit yields, increasing cash flow momentum and its positive gap vs. capex needs, bank credit conditions, and bank liquidity at the Fed. US equities should additionally benefit from buybacks, which were in 2025 YTD higher by 30% than in 2024, while IPOs remain low: the market gives more cash back to shareholders than it ask them. The Q2 reporting season is nearly complete in the US and has reached 80% completion for European/EA companies. It shows above average surprises vs analysts' estimates for US companies (8% just like in Q1, above 9Q average of 6.5%), while EU surprises (5.2% below norm of 5.6%) are positive as well. SPX earnings rose 11% yoy in Q2 so far, vs. 8% in Q1; consensus expects annual full-quarter eps growth in Q2 at 12.9%. Annual sales growth accelerated from 0.7% in Q1 to 5.8% (also thanks to a weaker TW USD). Overall, the ratio of positive to total eps surprises increased from 80% to 85% in Q2 (max in 4 years). For EU firms, we observe a turnaround: annual eps growth has become positive in this quarter (from -4.7% to 3.9%). However, annual sales growth turned negative, falling to -2.1% after a positive 2% in Q1. For the median stock (not cap weighted results), earnings look decent, too. Margins are holding up well and our margin proxies continue to be supportive: CPI/ULC, TW USD, credit yield, tax rate and PMI-based margins for the EA. US CEOs expressed confidence in managing tariff impacts, and 78% of US firms raised their sales guidance. Overall, we forecast earnings momentum to soften only slightly over coming months, with a recovery anticipated by year-end. We maintain a mild equity OW due to risks: structural overvaluation in the US, pressure on 10-year yields (high gov. debt), potential slow-down in US GDP, Trump-induced volatility, and elevated global macro surprises in the short term. Still tactically neutral on EMU vs US, and tactical OW US IT. OW EMU longer term. OW MDAX, EU small cap. UW MSCI France. OW EM: China and China IT, India, Korea and Poland. Mid-term view: diversify US into equally weighted SPX, Gold miners, AI phase 4 – enhanced productivity and Uranium.

European sector allocation: getting more defensive

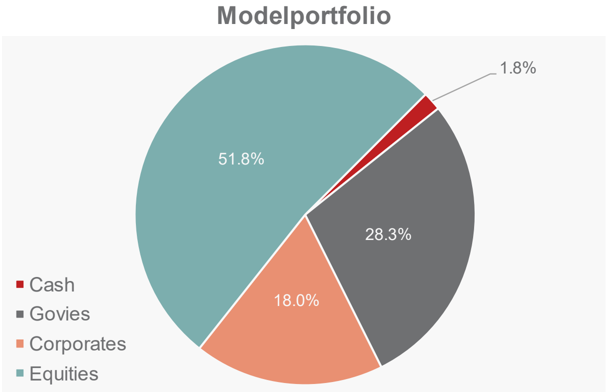
The Q2 reporting season shows double-digit yoy earnings decline in Energy and Discretionary (ex-services). Much better results for Financials, HC and IT, all with very positive yoy eps growth. While maintaining a cyclical tilt and a focus on quality domestic exposure, we get more defensive by increasing our Pharma OW (cheap valuation, better visibility on tariffs). We lower Utilities and Cons. Materials (neutral: expensive, negative revisions). OW Small vs Large Cap, Banks, A&D, Building Products, Construction, Food Retail, Insurance, Pharma, RE, Retailing, Semis. UWs: Auto, Durables, Energy, FBT, HPP, Media, Transport, Utilities.

Asset Allocation

Thorsten Runde



Source: GenAM



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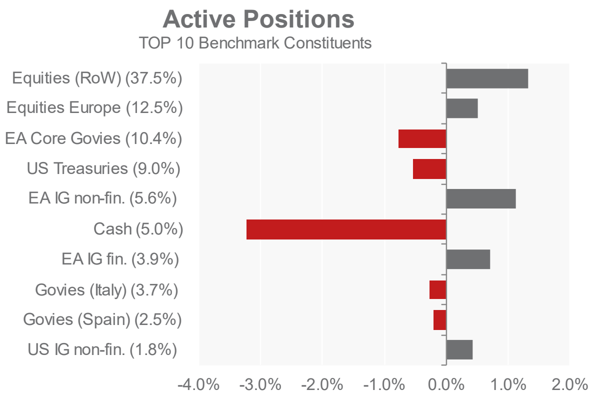


Source: GenAM; Benchmark weights in parentheses

- **The performance ranking in August 2025 (28.08.25) was again clearly dominated by Equities ex EMU. Returns are ranging from around +2.2% for the US to more than +4% for Japan.**
- **The bottom positions of the ranking are held by long-dated fixed income outside the US. With -3.4% the bottom of the ranking is held by French OATs 10Y+ which suffered from fresh political uncertainties.**
- **On the Credit side, HY outperformed IG by approximately +10 bps. Within IG, Financials slightly outperformed Non-Fin. by around +5 bps while US outperformed EA by +95 bps.**
- **Strong earnings, AI-driven growth, and easing recession fears remain supportive for Equities while valuations are getting stretched and policy uncertainty persists.**
- **Thus, we stay constructive on risk assets favouring EA IG Credit over Equities and keep our overweight in HY. We confirm the overall neutral duration stance for EUR fixed income.**

In August 2025 (28.08.25) our model portfolio again outperformed its benchmark by around +6 bps. All in, the UWs in Cash (+3.5 bps) and Govies (+3.2 bps) proved most rewarding. Not surprisingly, the OW in Corporates again turned out to be most painful (-2.9 bps), given the dominance of Equities in the benchmark and their persisting strong performance. At the individual contribution level, we find the UW in France 10Y+ (+2 bps) and the OW in US Equities (+0.9 bps) outstanding, while there is again nothing striking on the negative side.

We remain cautiously optimistic on Equities, assuming support by strong earnings growth, AI-driven productivity, and potential Fed rate cuts. That said, valuations are already stretched, and policy uncertainty could trigger volatility. For the US we expect 10y Treasury yield to be still tilted to the downside due to economic slowdown concerns and potential Fed rate cuts. EA yields are skewed to the upside, driven by increased fiscal spending, higher bond issuance, and lingering inflation risks. So, we confirm our overall neutral duration stance, keeping the small long for the US, even though with reduced conviction given the risk from the fiscal side and the US administration's attacks on the independence of the Fed.

Moderate pro-risk stance | preference for Credit over EQ

The broad picture did not change too much in the course of August i.e.; supportive arguments and risk factors remained more or less the same. Thus, we confirm our moderate overall pro-risk stance by favouring Credit over Equities. We keep our UW in lower-yielding fixed income, including Cash and Core Bonds and confirm our UW in USD.

Forecasts

Macro Data

Growth[1]	2024	2025 forecast	2025 Δ vs. cons.	2026 forecast	2026 Δ vs. cons.	2027 forecast
US	2.8	1.7	0.2	1.7	0.0	1.9
Euro area	0.9	1.1	0.0	1.3	0.2	1.4
Germany	- 0.2	0.3	0.1	1.5	0.3	1.4
France	1.0	0.6	0.1	0.8	- 0.1	1.4
Italy	0.7	0.4	- 0.2	0.6	- 0.1	0.5
Non-EMU	1.0	1.2	- 0.0	1.2	0.0	1.5
UK	0.9	1.0	0.0	1.0	0.0	1.5
Switzerland	1.1	1.1	- 0.1	1.4	0.0	1.2
Japan	- 0.1	0.5	- 0.3	0.4	- 0.3	0.6
Asia ex Japan	5.0	4.7	- 0.0	4.6	0.0	4.5
China	4.8	4.6	- 0.0	4.3	0.1	4.0
CEE	3.4	1.9	- 0.1	2.1	- 0.1	2.1
Latin America	1.8	2.0	0.0	1.9	0.0	2.5
World	**3.2**	**2.9**	**0.0**	**2.9**	**0.0**	**2.9**

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	2.9	0.0	2.6	- 0.1	2.2
Euro area	2.4	2.0	0.0	1.8	0.1	2.0
Germany	2.3	2.1	- 0.1	2.0	- 0.0	2.0
France	2.1	1.2	0.2	1.5	- 0.0	2.0
Italy	1.1	1.8	0.0	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	2.9	- 0.1	1.5	- 0.2	1.8
Asia ex Japan	1.8	2.0	0.6	2.1	0.2	2.2
China	0.4	0.5	0.3	1.0	0.2	1.5
CEE	19.1	14.2	1.5	9.4	0.8	7.0
Latin America[2]	4.7	4.6	0.0	3.9	0.0	3.2
World	**4.0**	**3.4**	**0.4**	**2.9**	**0.1**	**2.7**

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

Financial Markets

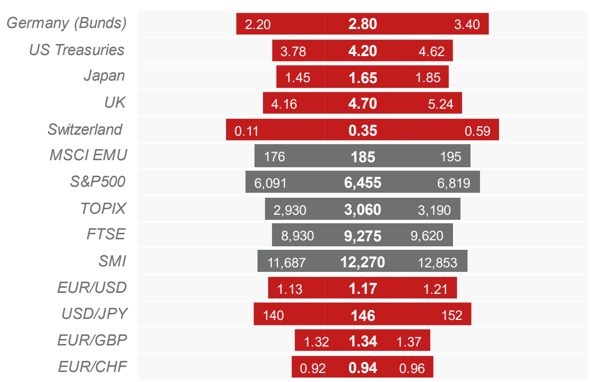
Key Rates	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
US (upper bound)	4.50	4.25	*3.87*	4.00	*3.60*	3.50	*3.02*
Euro area	2.00	2.00	*1.88*	2.00	*1.80*	2.00	*1.78*
Japan	0.50	0.50	*0.63*	0.75	*0.73*	0.75	*0.94*
UK	4.00	4.00	*3.90*	3.75	*3.77*	3.50	*3.58*
Switzerland	0.00	0.00	*-0.10*	0.00	*-0.13*	0.00	*-0.10*
10-Year Gvt Bonds							
US Treasuries	4.26	4.20	*4.30*	4.15	*4.34*	4.10	*4.44*
Germany (Bunds)	2.73	2.80	*2.78*	2.85	*2.82*	2.95	*2.92*
Italy	3.60	3.65	*3.67*	3.70	*3.75*	3.80	*3.92*
Spread vs Bunds	*88*	*85*	*89*	*85*	*93*	*85*	*100*
France	3.50	3.60	*3.59*	3.70	*3.66*	3.80	*3.80*
Spread vs Bunds	*78*	*80*	*81*	*85*	*84*	*85*	*88*
Japan	1.62	1.65	*1.71*	1.70	*1.78*	1.75	*1.90*
UK	4.73	4.70	*4.82*	4.65	*4.87*	4.60	*4.99*
Switzerland	0.33	0.35	*0.31*	0.35	*0.34*	0.40	*0.40*

**3-day avg. as of 27/08/25*
***ICE BofA (OAS)*

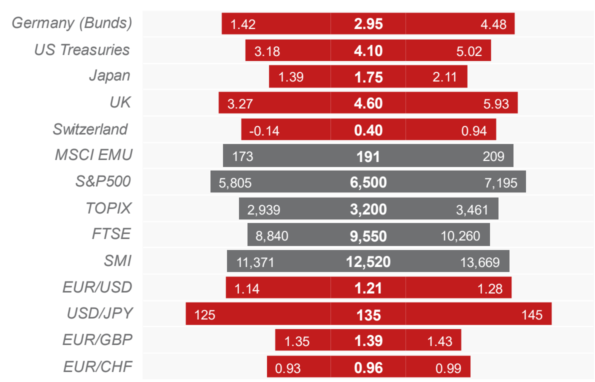
Credit Spreads**	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
EA IG Non-Financial	77	75		75		75	
EA IG Financial	81	80		80		80	
EA HY	275	275		275		275	
EM Sov. (in USD)	205	215		225		230	
Forex							
EUR/USD	1.16	1.17	*1.17*	1.19	*1.18*	1.21	*1.19*
USD/JPY	148	146	*146*	143	*145*	135	*143*
EUR/JPY	172	171	*171*	170	*171*	163	*170*
GBP/USD	1.35	1.34	*1.35*	1.37	*1.35*	1.39	*1.35*
EUR/GBP	0.86	0.87	*0.87*	0.87	*0.87*	0.87	*0.88*
EUR/CHF	0.94	0.94	*0.93*	0.95	*0.93*	0.96	*0.92*
Equities							
S&P500	6,462	6,455		6,405		6,500	
MSCI EMU	185.0	185.3		187.0		191.0	
TOPIX	3,082	3,060		3,120		3,200	
FTSE	9,281	9,275		9,400		9,550	
SMI	12,191	12,270		12,490		12,520	

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*

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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
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