GENERALI ASSET MANAGEMENT

Market Perspectives

The art of the deal

August 2025

GenAM Macro & Market Research

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

- **President Trump is making trade deals around the world. Tariffs will hurt US and global growth in the near term, but investors are finding comfort in the more cooperative stance and lower recession risk.**
- **The slower global growth in the coming months is likely to cap bond yields. The US inflation bump may challenge that view, but there are signs that corporations will smooth the US shock by adjusting costs and prices globally.**
- **Seasonals tend to be less favourable to risk markets in August, hence we keep our overweight in equities and High Yield cautious. That said, the soft-landing scenario generally stays supportive, and EA equities will look forward to an economic reacceleration by yearend, as the German fiscal bazooka kicks in.**
- **Our fundamental views remain bearish USD – a positive for EM markets. The asymmetric US-EU trade deal, however, is a reminder of the weak strategic positioning of the EU, with persistent internal dissents making it harder to unlock its economic potential. This may cap euro gains.**

Content

Global View – The art of the deal

Vincent Chaigneau

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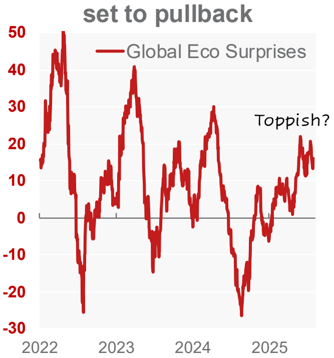
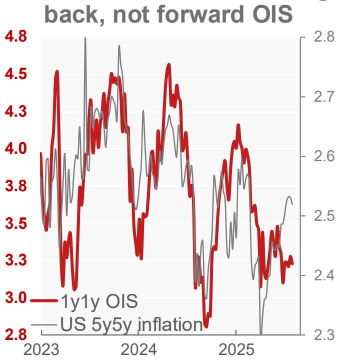
President Trump is following the script of his book, "the Art of the deal", published nearly 40 years ago (1987). After sending tremors across trade partners' governments and financial markets on 2 April, he has made bilateral deals that are not as bad as initially feared, if still asymmetrical. The latest US/EU deal sees a 15% tariff rate on EU exports (with exemptions and exceptions), but no EU retaliation. On a positive note, as we go to press, it appears that the US-China truce will be extended for another three months.

Global eco surprise index set to pullback



Source: Citi, Bloomberg, GenAM

US inf. breakeven bouncing back, not forward OIS



Source: Bloomberg, GenAM

Financial markets have climbed a wall of worry, as the worst-case economic scenario (of sky-high tariff rates) has been avoided. The global economy has so far been resilient, though we see signs of slowing in the US, and expect meagre EA growth over the next 3-6 months (but reacceleration through the turn of the year). As such, the case for global economic surprises to pull back remains (left chart above). Importantly, the solid US headline GDP for Q2 (3% saar) hid a slowdown in final demand, especially from the consumer as real disposable income growth has slowed to just 1.7% yoy. The sugar rush effect (corporations accelerating production and exports, ahead of tariffs) – seen for instance in the record activity in Chinese ports in May and June - will also reverse.

Global markets, for the rest of the summer, will navigate the tailwinds from the trade deal relief and still prudent investor positioning vs. the headwinds from slower growth and challenging seasonals (August traditionally weak for equities). Implied volatility across markets has pulled back towards YTD lows, suggesting a degree of complacency.

We do not expect central banks to be decisive market movers over summer, though the Jackson Hole symposium always matters (21-23 Aug.). We still expect two Fed cuts in H2 (markets priced for 1.5), even though Powell sounded rather hawkish at the 30/7 meeting. US inflation expectations have bounced, but not enough to change implied views about the Fed's terminal rate (chart). We look for one final ECB cut, which is not fully priced (15bp).

10-Year Gvt Bonds	Current*	3M	6M	12M
US Treasuries	4.37	4.30	4.20	4.05
Germany (Bunds)	2.70	2.70	2.75	2.95
Italy	3.55	3.55	3.60	3.80
Japan	1.57	1.55	1.60	1.70
Forex				
EUR/USD	1.16	1.16	1.18	1.20
USD/JPY	148	146	143	135
EUR/GBP	0.87	0.87	0.87	0.87
Equities				
S&P500	6383	6380	6300	6350
MSCI EMU	183	184	185	189

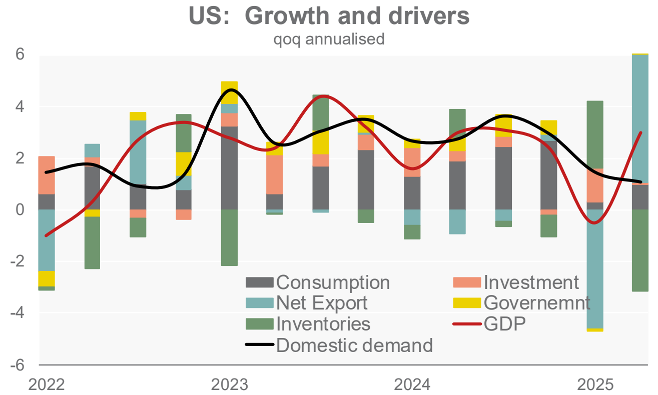
**3-day avg. as of 29/07/25*

Slightly long US duration, long Credit, mild OW equities

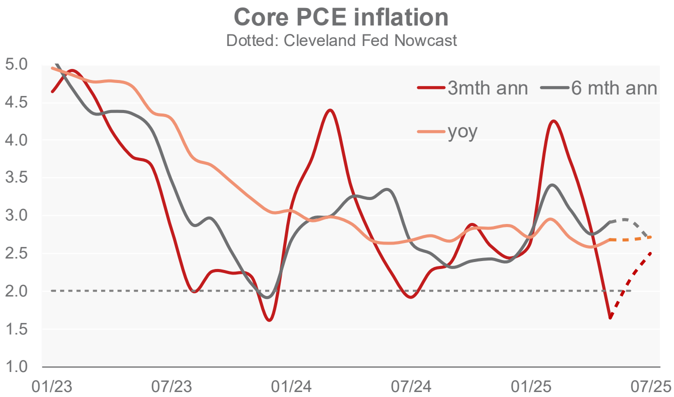
Our tactical asset allocation recommendations combine a cautious exposure to the continuation of the goldilocks development of the past few months and a structural preference for Credit over Govies, even at those tight level of spreads (a call that has been largely rewarded). Fundamentally we see more downside to the US dollar, but the very asymmetrical US-EU trade deal (despite a balanced bilateral current account) has reminded the weak strategic position of the EU, aggravated by persistent internal dissents. This creates downside risks to our 1.20 12-month forecast. Our duration exposure is small, as we expect bond yields to stay in a range, with a small downside bias in the US, given the slowdown. We keep a small long in equities, and an underweight in both cash and Govies.

United States

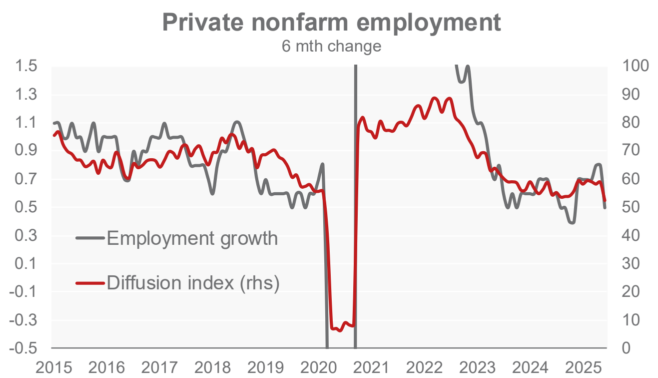
Paolo Zanghieri



Source: BEA, GenAM



Source: BEA, ClevelandFed, GenAM



Source: BLS, GenAM

- **Q2 GDP rose by a better than expected 3% ann., but domestic demand decelerated. The deals struck with Japan and the EU bring the average effective tariff on US imports to 18%, slightly above our expectations, but does not change our forecast of 1.5% growth this year and 1.6% next, with core inflation back up to above 3% by year-end.**
- **Recent data signals some weakening in consumption and labour market, consistent with the advanced phase of the cycle. At 2.7% yoy inflation remains high due to stickiness in services. The impact of tariff has shown up only marginally so far.**
- **Faced with sticky inflation and a still resilient labour market the Fed needs more clarity on the price impact of tariffs. The hawkish tone of the July meeting reduces the odds of two rate cuts this year.**

The better-than-expected Q2 GDP owes to the sharp rebalancing, following the Q1 stockpiling domestic demand decelerated to 1.1% annualised, as the pickup in consumption did not offset the plunge in capex. The 18.2% average tariff after the deals with the EU and Japan is slightly higher than what we estimated but not enough to materially change our macro forecast. We expect the economy to weaken in the second half of the year and see GDP up by 1.5% this year. In 2026, trade related disruption will continue, only marginally offset by fiscal expansion, yielding 1.6% growth. While payrolls continue to increase at a healthy pace (150k on average in between April and July), job creation is increasingly concentrated in very few sectors like healthcare and hospitality. In June, just less than 50% of sectors increased employment.

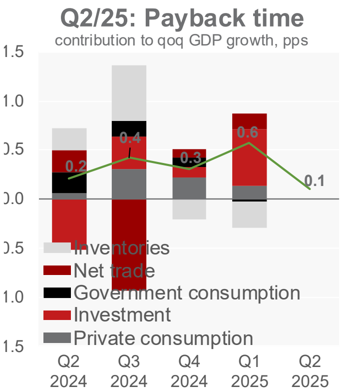
Core PCE inflation was stuck at 2.7% yoy in May, with services easing only marginally. Moreover, tariffs are start feeding through into consumer prices: the three-month increase for a range of goods, (e.g. household appliances, sporting goods), is approaching 10% annualized. The full impact of tariffs will materialise in the final months of the year, with core inflation back up to above 3% yoy.

Fed remains patient despite political pressure

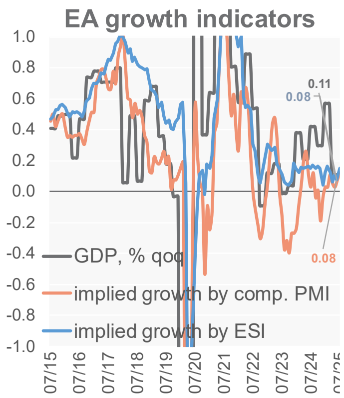
Tariffs will add to sticky inflation, and we do not expect a significant rise in unemployment in the coming months from the currently very low level (4.1%), as immigration curbs reduce labour supply. As shown by the hawkish tone of the July meeting, the Fed needs more clarity on the economic fallout of tariffs before restarting to cut rates, despite unprecedented political pressure. Our baseline still has two cuts this year, but the odds have declined to just above 50%.

Euro Area

Martin Wolburg



ource: Datastream, GenAM



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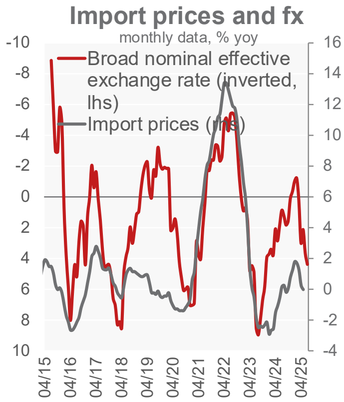
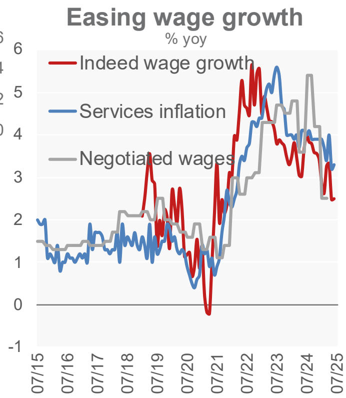
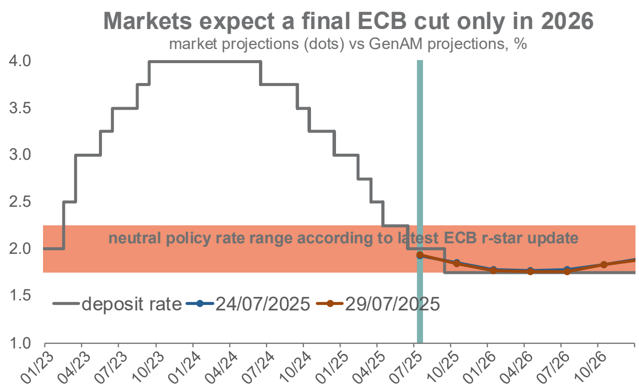


Source: Datastream, GenAM calculations



Source:Datastream, indeed, GenAM



Source: Datastream, ECB, GenAM calculations

- **The US-EU trade deal's regular import tariff rate is above expectation but takes tail risks off the table.**
- **Q2 GDP growth of 0.1% qoq is also above expectation. We leave our 2025/26 forecasts of 1.1%/1.3% unchanged.**
- **The air for ECB rate cuts is getting thinner but we still expect a final 25 bps "insurance" cut in September.**

Following the pre-Liberation Day export rush at the outset of the year, activity in the second quarter surprisingly advanced by 0.1% qoq according to a first estimate. Also, key sentiment indicators for July improved further, the comp. PMI reached a 11-month high suggesting small expansion.

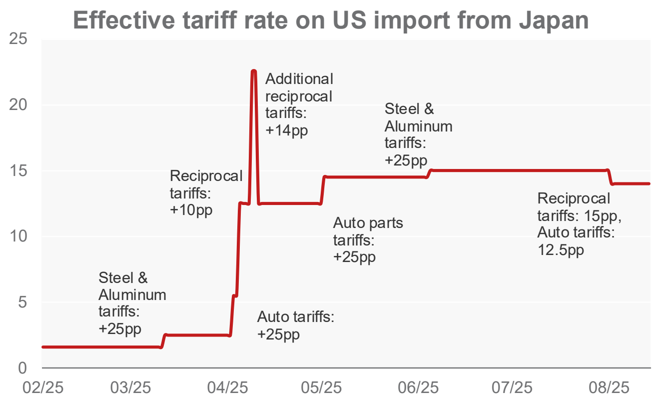
Looking ahead, elevated uncertainty about US-EU trade in the aftermath of Liberation Day is now receding as both sides reached a trade agreement. The average tariff rate on US imports from the EU will increase from 1.2% in 2024 to about 15% this year. This is above the 10% tariff rate that had been hoped for following the US-UK agreement, but below the 30% rate threatened beyond the August 1st deadline. Obviously, tariffs will be a headwind to euro area activity. First simulation results suggest that output will be reduced by about 0.5% relative to pre-tariff war scenario. However, while we had a tariff rate of 10% in our calculations we also expected a deal only after some more transatlantic arm twisting. All in all, we see no need to adjust our expectation that after another weak quarter activity will gain momentum in Q4, helped by German fiscal stimuli starting to kick-in. We stick to our annual euro area growth forecasts of 1.1%/1.3% for 2025/26. In fact, the Q2 data even tilt the 2025 growth risks slightly to the upside.

Air for a final ECB rate cut got thinner

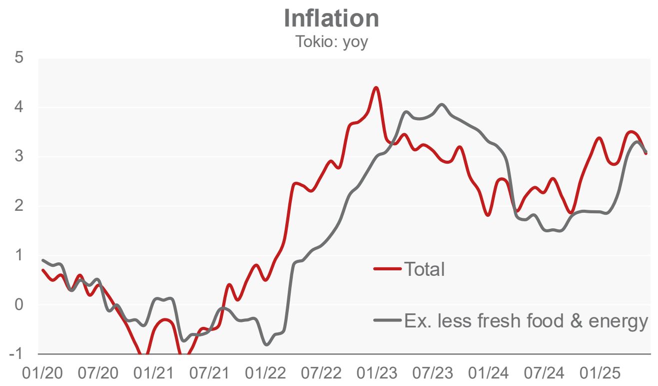
At its July meeting the ECB adopted a somewhat hawkish wait-and-see stance seeing itself "*in a good place*" with inflation at target and the economy resilient in spite of exceptional uncertainty. We acknowledge that the Q2 GDP data and the trade deal reinforce this stance. However, in the tariff deal the EU restrained from imposing general tariffs on imports from the US, hence it will be clearly disinflationary due to its negative output effect amplifying the effects from the latest EUR appreciation and easing wage growth. Moreover, ECB staff finds that US-China trade tensions could redirect Chinese exports towards Europe and lower prices by up to 0.15 pp. With still leeway to reach the lower bound of the policy range, we continue to look for a final 25 bps cut by September. Thereafter, we hardly see scope for a cut as activity is set to accelerate and by not cutting in September the ECB would indicate that it looks through the 2026 inflation trough and sees no need for a final so-called insurance cut.

Japan

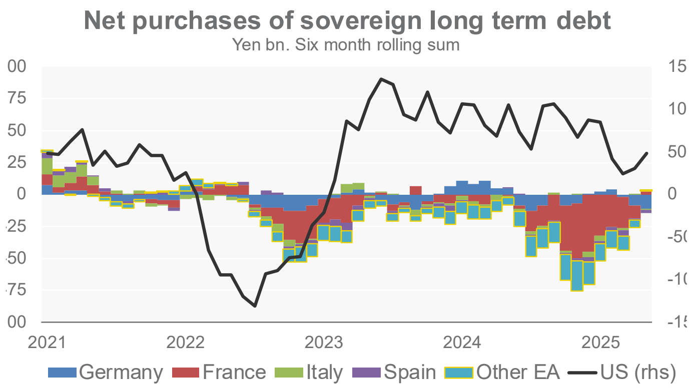
Paolo Zanghieri



Source: US Trade Representative, Japanese Ministry of Finance, GenAM



Source: Datastream, GenAM



Source: Bank of Japan, GenAM

- **The ruling Liberal Democratic party lost the majority also in the upper house after the July 20th election. Finding a compromise with other parties will likely end up in an ever more expansionary policy.**
- **The deal with the US will lower the effective tariff rate slightly to around 14%, as the impact of the auto tariff reduction outweighs that of the reciprocal tariff increase. But this does not alter our 0.5% growth forecast for this year.**
- **Despite historically high inflation (expected to remain at around 3%), political uncertainty and risks to growth may force the BoJ to postpone the next rate hike to Q1 2026.**

Political developments are increasingly weighing on the economic outlook. The ruling Liberal Democratic party (LDP) and its partner Komeito lost their majority in the upper house elections on July 20. Although PM Ishiba is expected to stay to avoid political gridlock and complete tariff negotiations with the US, the political situation has become fluid and could lead to a leadership change or coalition reshuffling. With no majority in both houses, the Ishiba administration will need support from opposition parties on a case-by-case basis. Major changes in the overall economic policy framework aren't expected, but opposition parties will demand more generous fiscal support for vulnerable households, creating upward pressure on long-term yields. The deal struck with the US July 23 entails a reduction in the tariff rate on passenger cars and auto parts from the Liberation Day 25% to 15% and an 15% reciprocal tariff rate. This will bring down the effective rate to around 14% from the current 15%, as the impact of the auto tariff reduction outweighs the impact of the reciprocal tariff increase. Yet the positive impact will likely be swamped by persistent uncertainty, hence we stick to our growth forecast (0.5% this year, slowing down to 0.4%in 2026).

BoJ to raise rate only in Q1 2026 despite high inflation

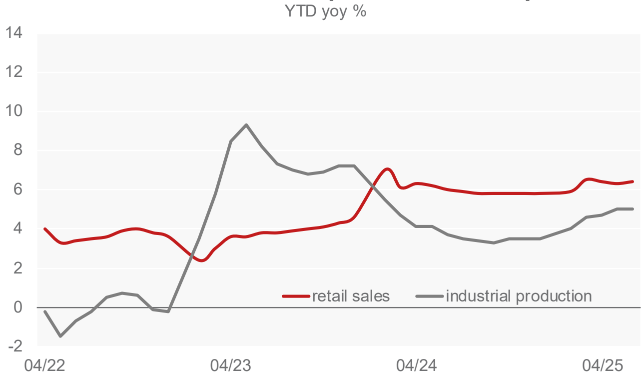
We do not expect inflation to slowdown much from the currently historically high level, in June supercore inflation stood at 3.1%. Yet, he election outcome has increased the likelihood that the Bank of Japan will not raise its policy rate before the impact of tariff shock appears clearly, and we do not foresee any move before Q1 2026. Indeed, at the July meeting, the BoJ raised its short-term inflation forecasts, but still see a moderation in prices afterwards. After sliding in April, net purchases of US Treasuries picked up again, while those of Euro area securities stabilised.

China

Guillaume Tresca

Imbalances: feeble consumption and better production

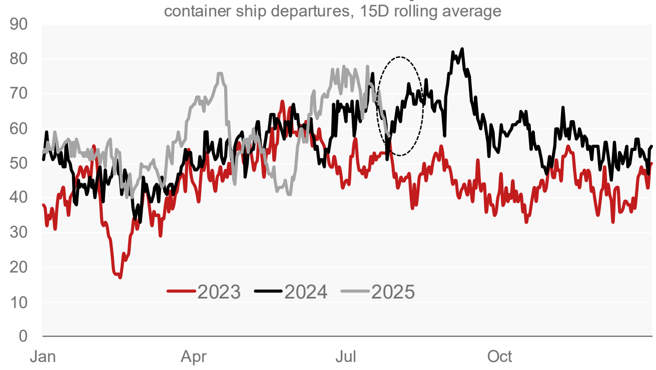
YTD yoy %



Source: Bloomberg, NBC, GenAM

Rebound of US exports

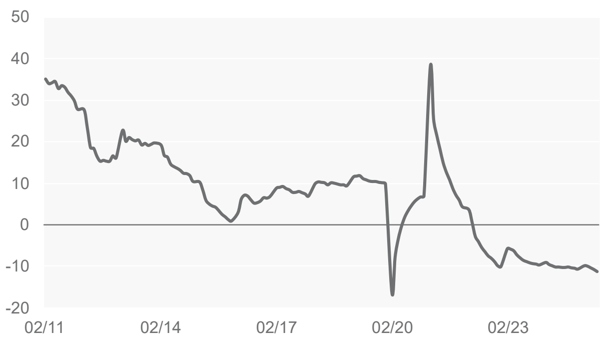
container ship departures, 15D rolling average



Source: Bloomberg, GenAM

China: Property investment still a drag

yoy % cumulative



Source: Bloomberg,NBC, GenAM

- **Outlook continues to improve as GDP growth slowed down less than expected; risks are skewed to the upside.**
- **Trade uncertainties have further declined. The extension of a tariff truce and a potential Trump-Xi meeting later this year will support sentiment.**
- **Activity will slow in H2 as the demand side remains weak. The weakness of the real estate sector is still a drag, while policymakers try to address the price war issue.**

Over the past few weeks, it has become clear that the Chinese economy has bottomed out and that the outlook is positive. We now anticipate an increase in our GDP growth forecast of 4.6% in 2025. Indeed, the Q2 GDP data was slightly better than expected, with the year-on-year change exceeding the infamous 5% growth target for this year. The slowdown has been less pronounced than previously thought, thanks to solid exports. High-frequency indicators have also recently shown resilience in exports.

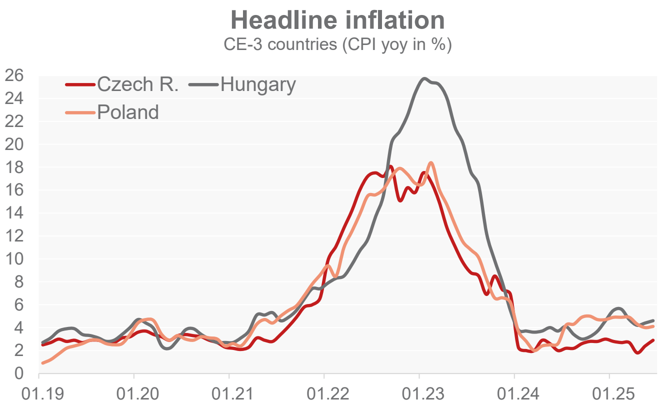
The trade outlook has improved further as the threat of trade tariffs has eased, with the latest news suggesting that the trade truce with the US could be extended. There is even the possibility of an easing of the fentanyl tariff, as China has made progress on US requests over the past few months. Furthermore, the prospect of a meeting between President Trump and Xi in early Q4 could boost risk sentiment.

With slightly better momentum, there is a risk of less monetary easing, as we have penciled in 30 basis points more cuts in 2025, and of more parsimonious fiscal support. Policymakers will continue to take a reactive approach to data, only intervening later this year if the growth target is at risk. The awaited July Politburo meeting did not announce any new stimulus measures, and recent official rhetoric has focused on the issue of oversupply in the industrial sector, particularly in the electric vehicle (EV) sector. This will lead to further supply-side reforms to rebalance the economy.

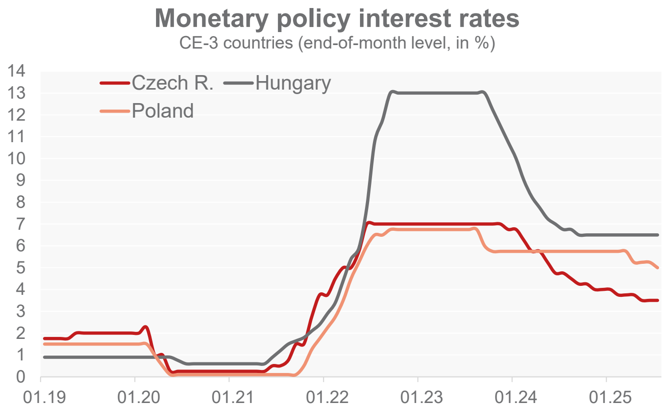
However, the better momentum should not distract from the fact that China is still facing numerous challenges, and activity will continue to slow down in the second half of the year. We continue to observe a dichotomy between the supply side and weak domestic demand. Retail sales are growing, but this is due to government subsidies. More worryingly, there has been a renewed deterioration in property sales and prices. Residential investment has deteriorated further and any recovery on this front will cap the retail sales improvement and will fail to alleviate disinflationary pressures.

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

Czech Republic	2023	2024	2025f	2026f
GDP	0.2	1.1	2.2	2.0
Consumer prices	10.7	2.4	2.5	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	4.5	3.5
Central bank's key rate	10.75	6.50	6.00	5.00
Poland	**2023**	**2024**	**2025f**	**2026f**
GDP	0.2	2.9	3.1	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 is expected to moderate in Q3 in all CE-3 countries. While Czech headline inflation has stayed in the target range since the start of 2024, the Polish CPI should have reached the target range in July.**
- **Poland cut its interest rates in July, while the central banks in Czechia and Hungary have kept rates unchanged in recent months. Poland and Hungary could cut rates in September, while we do not expect a final rate cut from the Czech CNB before Q4.**

The inflation picture was mixed in Q2. June headline CPI increased in Czechia (to 2.9% yoy) and in Hungary (to 4.6% yoy), while in Poland it stabilized at an area slightly above 4% yoy. Czech inflation stays within the target range set at 2% yoy +/-1pp but in H2 it is likely to stay around 2.5% on average. Polish CPI may fall to the inflation target range (2.5% yoy +/-1pp) in July. Inflation in Hungary may stabilize in the target range (3% yoy +/-1pp) only from Q1 2026.

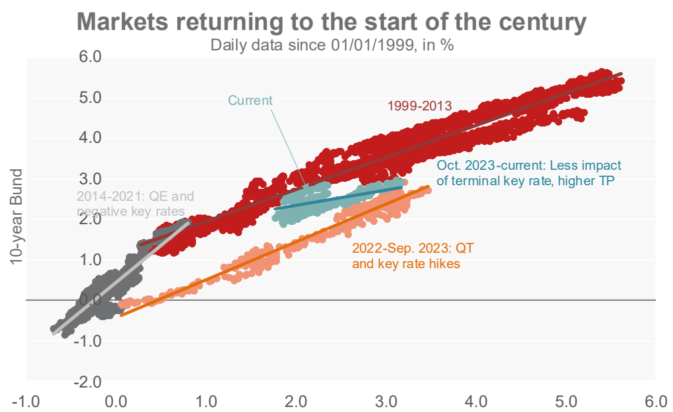
Preliminary data for Q2 reported Czech GDP growth at 0.2% qoq and 2.4% yoy. We expect the full-year 2025 growth slightly above 2%. Hungary reported GDP growth for Q2 at 0.4% qoq and 0.2% yoy and the full-year growth is expected below 1%. Poland will report its GDP flash estimate in mid-August: we keep our call for the full-year growth slightly above 3%. In general, the CE-3 economies face downside risks from the US tariffs, but they should benefit from a higher fiscal spending in Europe. Household consumption is a key driver of GDP growth across the region.

Czech CNB: Rate cut cycle nearing end

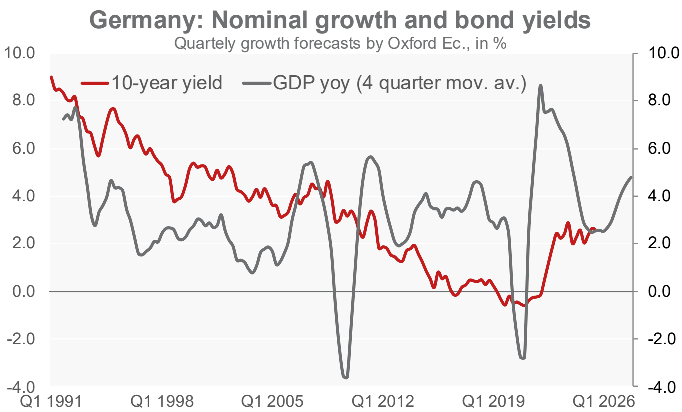
The Czech CNB kept its key rate unchanged at 3.50% in June, as expected (after a May 25 bps cut). There was no monetary policy meeting in July. We expect rates to remain unchanged in August and September, and a final cut to 3.25% in November. In Hungary, the MNB kept its base rate at 6.50% in July and repeated its call to maintain tight monetary conditions (the last rate cut by 25 bps came in September 2024). We expect rates to remain unchanged in August: policy easing may resume in September, but the risk is skewed towards a later resumption of interest rate cuts. The Polish NBP cut its key rate by 25 bps to 5.00% in early July. While the NBP is in a monetary policy easing cycle, the timing of the rate cut was surprising, as market had expected such move only at the next meeting scheduled for September. We expect the NBP to cut interest rates at least twice by the end of 2025, with the next reduction possibly coming as early as September.

Government Bonds

Florian Späte



Source: Bloomberg, GenAM



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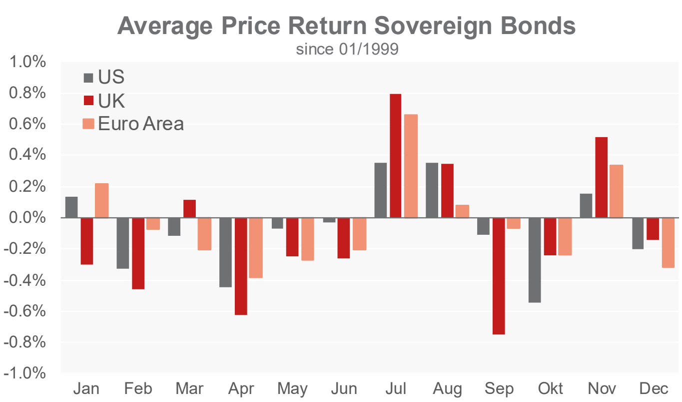


Source: Datastream, GenAM calculations

- **Backed by resilient economic data and hawkish leaning central banks, government bond yields have risen moderately on both sides of the Atlantic since the start of July.**
- **We expect EA core bond yields to remain flat due to our forecast ECB September key rate cut and summer seasonality. Higher EA yields are likely to prevail later in the year. By contrast, we consider US yields to be biased towards the downside. Weaker economic data and the prospect of further Fed key rate cuts are likely to pave the way for a moderate fall in yields.**
- **In a favourable market environment EA non-core government bond spreads remain skewed to the downside. Laggards have some spread tightening potential.**

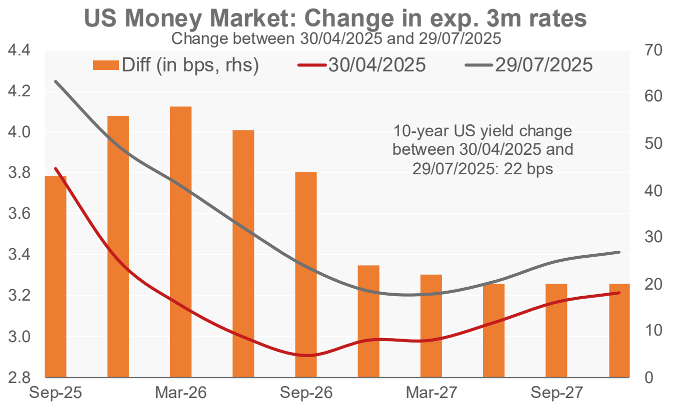
In July, a combination of overall robust economic data, rising energy prices, rather hawkish central banks and political decisions that eliminated at least some economic tail risks (US/EU tariff deal) caused government bond yields across the curve to rise on both sides of the Atlantic. The passing of the One Big Beautiful Bill in the US and the loss of the ruling coalition's majority in the Japanese Upper House contributed to the global rise in yields, as concerns mounted about the fiscal situation.

In the coming weeks, we expect EA core yields to move sideways. Firstly, summer seasonality tends to favour falling yields (see chart). Secondly, contrary to current market pricing, we expect the ECB to cut key rates again in September. The trade agreement between the EU and the US will not only have a negative impact on growth, but also no inflationary effects due to the lack of retaliation. Headline inflation is likely to slip below 2% in the coming months, which should make it easier for the central bank to decide to cut key rates by another 25 bps. Thirdly, EA growth in the current quarter will remain well below its potential, which still leaves leeway for more monetary policy accommodation.

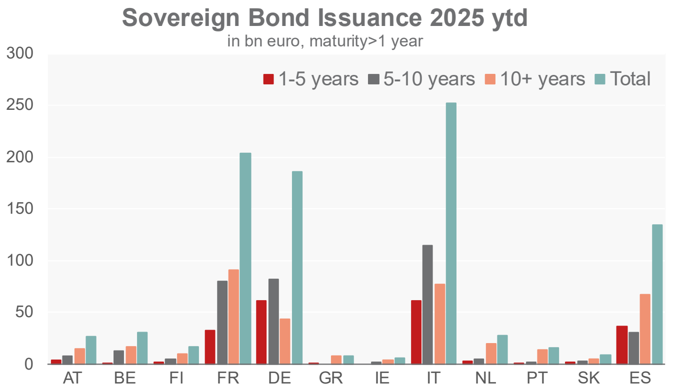
However, the yield trend is likely to rise afterwards. While the EU/US tariff deal has exposed the EU's political weakness, it has also eliminated a significant economic tail risk. Furthermore, market participants are expected to start focusing on the macroeconomic impact of the German fiscal stimulus after the summer break. While we believe that the current expected medium-term key rate level of 2.70% (approx. by 5y3m OIS) is somewhat exaggerated, its impact on the yield level of long-dated bonds has declined again with the rise in the term premium. As in the early years of the century, the long end of the curve has decoupled to some extent from the short end. Instead, nominal growth

Government Bonds

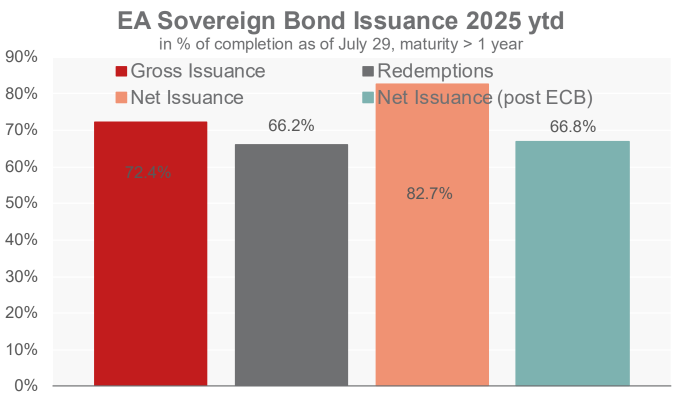
Florian Späte



Source: Bloomberg, GenAM



Source: Datastream, Bloomberg, GenAM calculations



Source: Datastream, Bloomberg, GenAM

expectations are likely to come back into focus. The expected increase from around 2.5% to 4% by 2026 highlights the potential for a significant rise in long-term yields (see chart).

Although the Fed did not lower key rates in July, despite clear calls from US President Trump, we still forecast two key rate cuts this year and two more in 2026. Had the Fed acted in July in response to political pressure, when the impact of tariff-related cost increases could not yet be estimated, the result would have been a further significant increase in long-dated yields anyway. However, we believe that the conditions for continuing the key rate cycle will be in place by autumn. Only 36 bps are priced in by the end of the year (versus 50 bps by GenAM). The medium-term outlook for the Fed (approx. by 5y3m OIS) is too high at 3.75%. Looking ahead 3 (12) months, we expect 10-year US yields of 4.30% (4.05%).

EA non-core government bonds: Outperformance vs. Bunds, but no broad-based further spread tightening

Non-core EA government bond spreads fell slightly again in July, reaching multi-year troughs in many cases from a low starting point. E.g., the 10-year BTP/Bund spread hit a new low of 80 bps, the lowest since 2010.

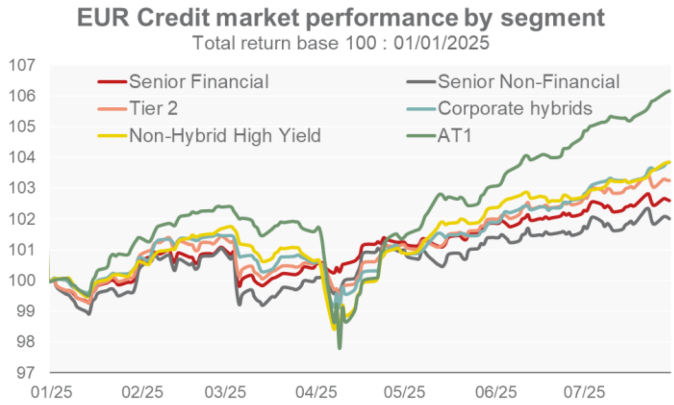
Overall, we anticipate a friendly market environment in the months to come. We foresee a final ECB key rate cut in September, with the market pricing in just -3 bps. The macroeconomic outlook is positive due to Germany's front-loaded fiscal measures, the tail risk event of a trade war with the US was avoided, and summer's seasonal trends are advantageous. Additionally, issuance activity continues to progress. Year-to-date, more than 70% of the annual gross government bond issuance targeted for 2025 (net: > 82%) has already been placed on the market.

It is noticeable that the EA treasurers have significantly reduced the share of very long-dated bonds in new issuances. While it was at 43% in 2024, it fell slightly to 42% in Q1 2025, to 35% in Q2 and in Q3 the share of bonds with a tenor of more than 10 years was recently less than 25%. In this way, the issuers react to the lower investor's appetite for duration and enable easy absorption of the supply. While the primary market remains largely closed in August, we continue to see smooth placement of upcoming supply even after the summer break.

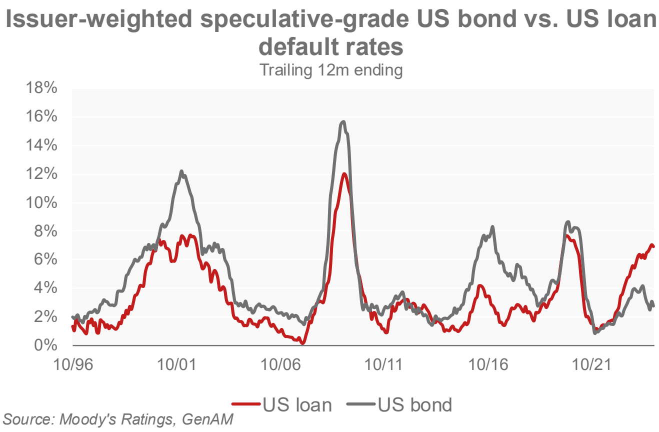
At the current levels we only see limited leeway for further spread tightening. Only a few laggards (e.g., Slovakia) or smaller markets (e.g., Lithuania) still offer some potential. However, a sustained setback is not expected, so even with a stable spread, EA non-core bonds are likely to outperform German Bunds.

Credit

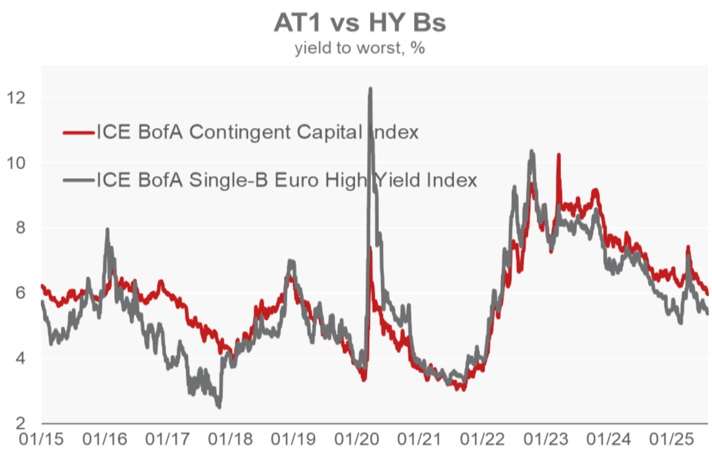
Elisa Belgacem



Source: Bbg, BofAML indices, GenAM



Source: Moody's Ratings, GenAM



Source:Bloomberg, BofAML Indices, GenAM own calculations

- **The persistent strong demand for credit and resilient fundamentals support our long position in investment-grade securities.**
- **Despite high yield underperforming IG in spread terms since this Liberation Day, the carry remains elevated.**
- **We recommend either extending duration in IG non-financial, e.g. into the 5-7Y bucket, or preferring subordination risk to credit risk, with AT1 corporate hybrids remaining more attractive than BBs.**
- **Financials typically have a higher beta than non-financials, but their fundamentals are currently very strong and their exposure to tariffs is lower, hence we keep a neutral stance on financials versus non-financials.**

In recent days, credit spreads have tightened significantly due to the absence of negative surprise on the trade war front. Indeed, demand remains elevated as investors are drawn to the high all-in yield, and the recession scenario is gradually losing ground.

Low supply plus strong demand means tighter spreads

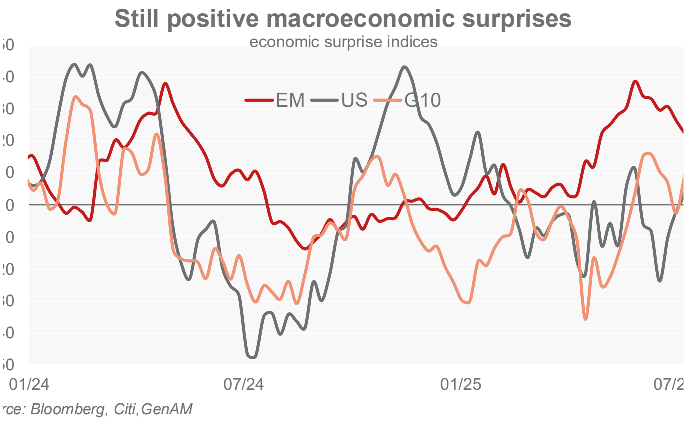
Rating agencies have begun to adopt a cautious stance on the most cyclical European companies, either by downgrading ratings or revising outlooks downward. This is especially evident in the Automobile sector, where the transition to electric vehicles, intense competition from Chinese manufacturers, and sluggish demand from China are creating significant challenges.

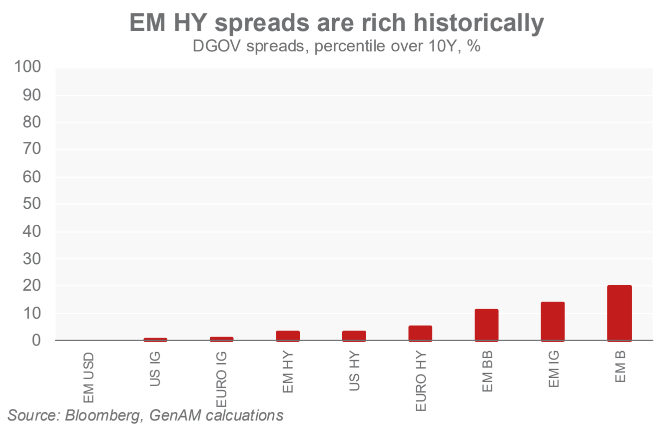
Carry remains the name of the game

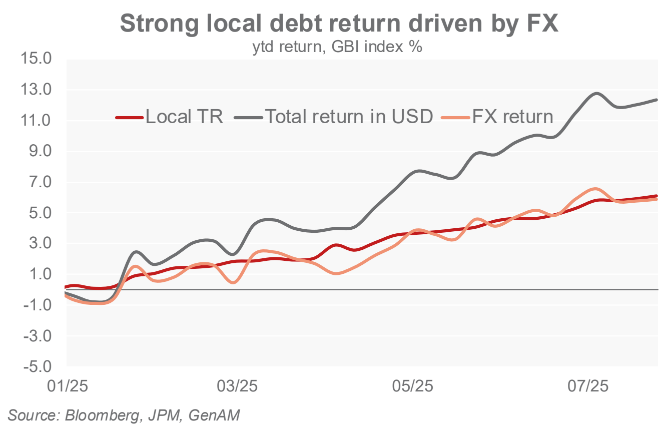
Spreads are less appealing with IG being at its tightest since 2018, but the carry remains attractive. We expect credit spreads to hover around current levels in the coming months, keeping carry elevated. Valuation considerations also lead to a preference for Europe over the US, as EU trades wider and tends to be structurally more defensive. We prefer long IG and subordination risk to pure HY but keep a slight HY overweight. HY defaults are declining but fundamentals under slight pressure. While extending duration may not be favorable from a spread perspective, a neutral/positive view on rates justifies a long position, especially in the 5-7 years bucket. AT1 has been the best-performing asset class within credit so far this year. Despite limited spread tightening potential going forward, we continue to favor AT1, particularly versus single-Bs. In a similar manner we do like corporate hybrids versus BBs.

EM sovereign bonds

Guillaume Tresca







- **The EM fixed outlook remains supportive as uncertainty is declining, while the macroeconomic environment is resilient.**
- **We maintain our positive view, but tight valuations and the past rally require a more selective approach.**
- **In external debt, we maintain our preference for IG over HY. We like BB names with IG upgrade potential.**
- **Local debt is the best way to express a positive EM view. We prefer rates over FX.**

The outlook for EM fixed income has remained positive as the risks surrounding the August tariff deadline have quickly faded and the macroeconomic environment has remained resilient. Several trade agreements have indeed been reached with EM countries, particularly Asian ones, and the effective tariff for EMs will be lower than feared on Liberation Day. There is a sense of improvement as the worst is now over, and uncertainty is declining. The US and China could extend the tariff truce further, macroeconomic surprises have been positive, and disinflation is still on course. However, valuations in the EM fixed income sector have been high, and the outlook could gradually become less attractive as tariffs lead to a slowdown in growth later on. This should be mild: the weakening USD provides some cushioning, and EM central banks have room to ease. Thus, while we remain positive, we recommend a more tactical approach, focusing on low beta sectors..

External debt: still positive but more selective

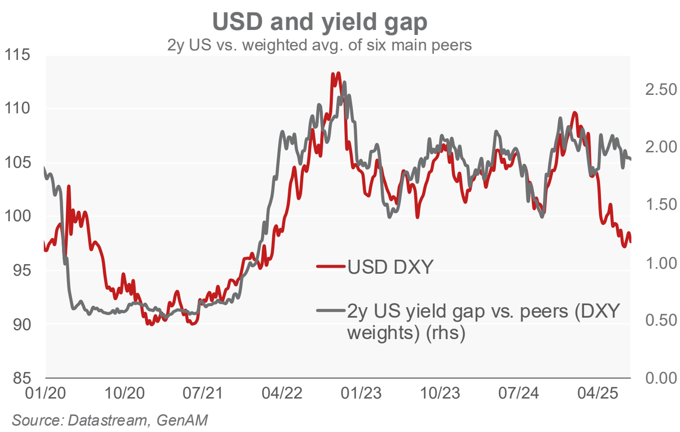
We expect a positive return in the coming months, driven by high carry and positive duration. Spreads will remain stable, supported by positive technicals over the summer. That said, valuations have become demanding and are close to historical and relative lows. The richness of EM HY, excluding distressed names, stands out, especially relative to US credit. It is time to be selective and adopt a more defensive approach. Therefore, we maintain our preference for IG over HY. We favour BB names with IG upgrade potential, such as Morocco and Serbia. We like Ivory Coast but not Saudi Arabia or Peru. EUR debt continues to offer a yield pickup over USD debt (e.g. Romania's € vs $ debt).

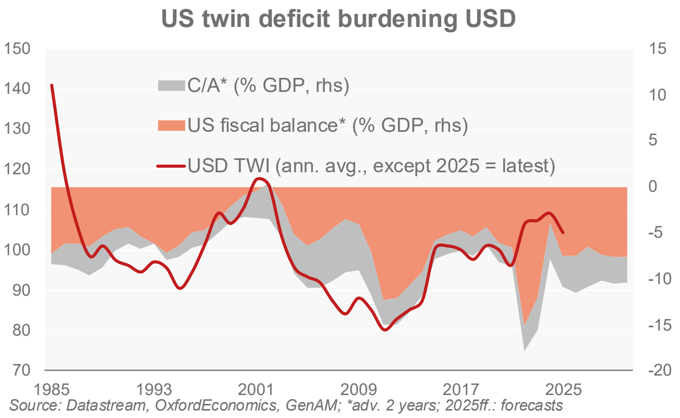
Local debt: favour rates, mind some FX consolidation

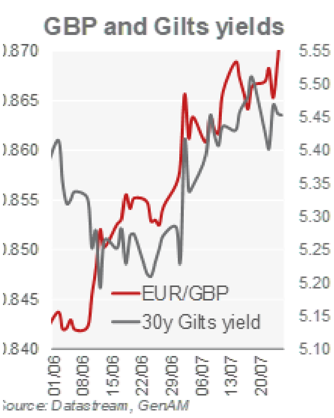
Local debt remains the best way to express our positive EM view. In the short term, we would favour rates over FX with a focus on the front end of the local curves. We still prefer CEE rates and see value in Brazil as the tightening cycle comes to an end. EM FXs can consolidate given the rapid rally and the positive risk environment still favour high-yielders like BRL, TRY, EGP.

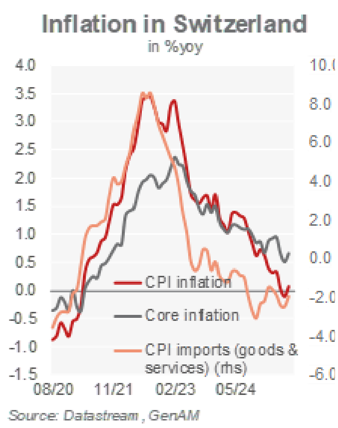
Currencies

Thomas Hempell









- **After a poor 1H25, the USD rebounded in July, helped by easing trade uncertainties following deals with Japan and the EU and slightly pared Fed rate cut expectations.**
- **Medium term, we expect USD weakness to resume, as investors diversify amid elevated US policy uncertainty and a partly eroding exceptionalism. Yet we acknowledge that the EU-US trade deal may keep the rise in the EUR/USD more muted.**
- **The GBP is burdened by new fiscal woes, with tax hikes looming to fund a budget hole, which may weigh on growth and rates expectations.**
- **We expect the recent CHF strength to be short-lived as undershooting inflation will likely still induce the SNB to cut rates into negative territory.**

After suffering its worst H1 (DXY -10.7%) since 1973, the USD stabilized in July as markets trimmed Fed rate cuts expectations and Trump postponed a key tariff deadline. The US-EU trade deal gave further support to the USD owing to eased trade uncertainties, one-sided US tariffs and the EU's investment commitments in the US. That said, high US policy uncertainty and an eroding US growth advantage will keep investors diversifying out of the US dollar, defying the positive yield gap vs. peers (top chart). Trump's attacks on Fed Chair Powell's authority do not help either. The US' persistent current account deficit requires continued inflows of foreign capital. Since the Plaza Accord in 1985 larger US twin deficits have hurt the USD (mid chart). All in all, we still look for a stronger EUR/USD but acknowledge some adverse risk to this forecast from the recent asymmetric trade deal, which has reminded how internal dissents can undermine the EU 'common good'. The JPY is likely to benefit from reflation and the BoJ's tightening bias. Albeit the ruling coalition lost its majority also in the upper house, the JPY has stayed stable as PM Ishiba vowed to stay in power. That said, medium term the JPY is still burdened by the risk of legislative gridlock and fiscal profligacy.

The UK suffered another synchronized slide in bonds and GBP on looming budget hole and question marks about the future of Chancellor Reeves. To comply with the fiscal rule, the government may be forced to raise taxes, which would weigh on growth and strengthen the case for faster and potentially deeper BoE rate cuts to the GBP's detriment.

The recent CHF bounce is likely to be short-lived. Persistent disinflation worries are still set to force the SNB to opt for negative rates, despite recent reluctance expressed by Chair Schlegel. This holds all the more as the continued strength of the franc complicates the SNB's task to bring inflation back into mildly positive territory again.

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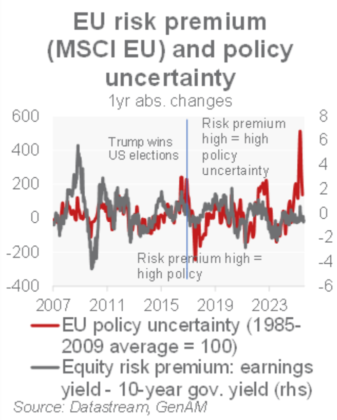
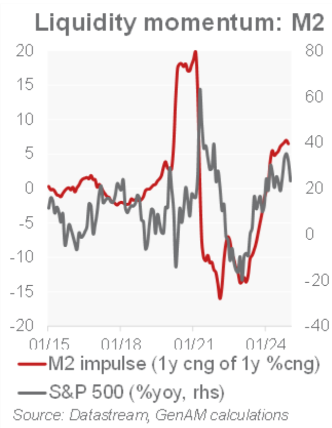
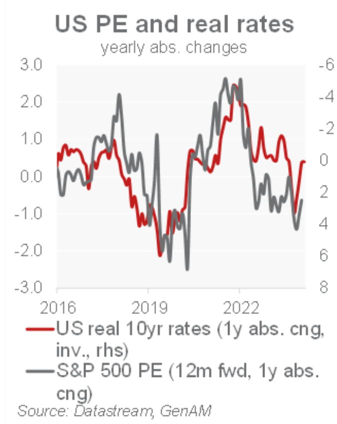
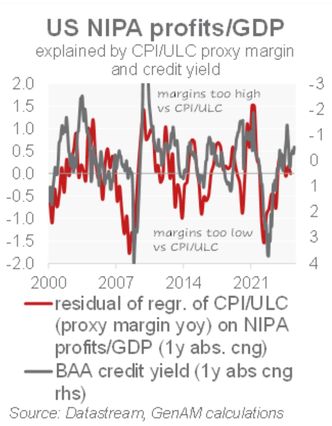
Equities

Michele Morganti and Vladimir Oleinikov









- **Equities continue to be supported by broadly accommodative financial conditions.**
- **Both VIX and policy uncertainty have room to decrease further, while investors' positioning is not bullish yet.**
- **Higher US tariffs will reduce EMU earnings (eps) forecasts by an additional 2% over the next year. Still, for both the US and EMU, we forecast earnings momentum to soften only slightly in the next months, with a recovery anticipated by year-end.**
- **The extension of US tax cuts is supportive of corporate sentiment, while our eps forecasts and ex-US valuations back decent returns in the next 12 months.**
- **Mild OW stance due to risks: US structurally rich valuation, pressure on 10-year yields (high government debt), Trump's induced volatility and toppish global macro surprises in the short term.**
- **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 phase4 – 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.**

Equities have rallied nicely year-to-date (YTD), supported by lingering broadly accommodative financial conditions: money supply (M2) impulse, real credit yields and the corporate free cash flow. The latter finances an appealing cash yield to shareholders (5% for the EU). Investor positioning remains neutral, and since April 2, both the VIX and policy uncertainty have declined significantly. Confidence indicators such as Sentix, IFO and PMIs remain resilient, and China's policy will continue to sustain the economy. Similarly, the EU is benefitting from the defense plan and the Germany's more front-loaded fiscal bazooka. In the US, the extension of the tax cuts should further support corporate sentiment and, finally, ex-US valuations back decent returns in the next twelve months. Regarding the US trade deal - firstly with Japan and then with the EU - equities have generally reacted positively. In the last days cyclicals (Autos, Financials and Industrials) have outperformed Defensives. Higher tariffs could cut earnings (eps) forecasts by

Equities

29/07/2025

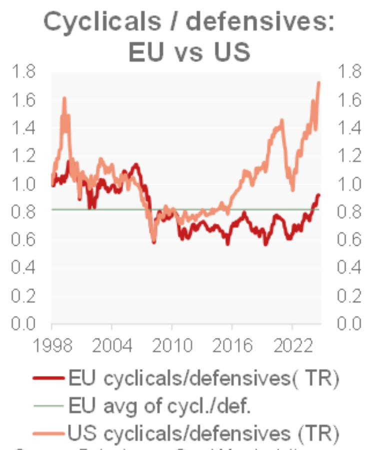
Analysis of the median stock: Q2 2025 reporting season

Median stock	Earnings Growth		Sales Growth		margin trend *		availability
	Q1 2025	Q2 2025	Q1 2025	Q2 2025	Q1 2025	Q2 2025	Q2 2025
S&P	6.7 %	10.3 %	4.5 %	5.9 %	2.1 %	4.4 %	35.7%
Stoxx	4.1 %	0.8 %	4.7 %	1.7 %	(0.6)%	(0.9)%	29.6%
Euro Stoxx	1.5 %	2.0 %	3.9 %	1.7 %	(2.3)%	0.3 %	24.5%

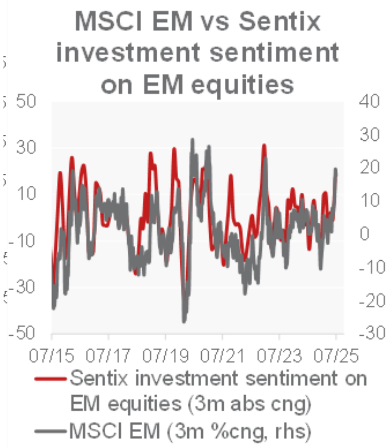
Median stock	Earnings Surpr		Sales Surpr		margin trend *		availability
	Q1 2025	Q2 2025	Q1 2025	Q2 2025	Q1 2025	Q2 2025	Q2 2025
S&P	4.2 %	4.2 %	0.4 %	1.3 %	3.8 %	2.9 %	35.7%
Stoxx	3.8 %	1.9 %	0.2 %	0.0 %	3.5 %	1.9 %	29.6%
Euro Stoxx	7.2 %	3.2 %	0.5 %	(0.2)%	6.7 %	3.4 %	24.5%

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

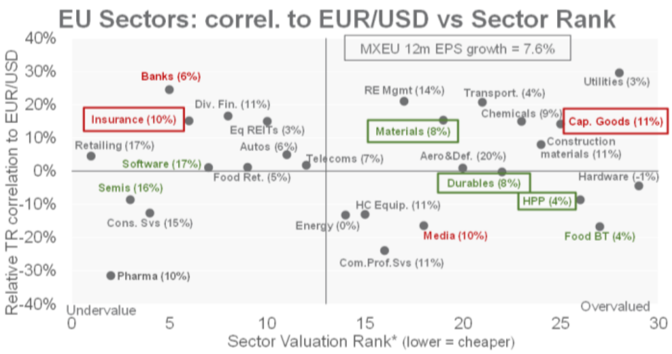
Source: Bloomberg, GenAM calculations



Source: Datastream, GenAM calculations



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 29/07/2025

further 2% in one year, in addition to the 4% resulting from a 10% tariff. That said, since October 2024, the 2025 consensus eps estimate for the MSCI EMU index has been already cut by 9.5%.

In addition to this, the Q2 reporting season shows a 7.2% surprise for EMU firms vs. analysts' estimates (25% reported). Only 15% of companies have cut guidance so far, while 25% raised it. Interest expenses continue to fall. US eps results (35% of US companies having reported) have surprised analysts by 6.9% vs. the 6.3% average of the past nine quarters. Similarly, Stoxx 600 shows beats of 3.8% just above norm, while EA companies (Euro Stoxx) are doing even better (7.4 vs the norm of 5.6%). For the median stock (not cap weighted results), earnings looks decent, too, showing a bit of +4.2%, 2% and 3%, respectively for the US, EU (Stoxx 600) and EMU (Euro Stoxx). Annual growth is 8.5% for the US, 3.5% for the EU and 6.2% for the Euro Stoxx. For the latter two, growth increased vs. Q1. Overall, we forecast the earnings momentum to soften only slightly in the next months, with recovery anticipated by year-end. As a result of lower eps growth due to higher US tariffs (15% vs 10%), we lower our EMU's total return (TR) for the next year from 9% to 7%. This is somewhat conservative, as we use lower-than-consensus EPS forecasts for 2026 and 2027, by an average of 8% and 4%, respectively for the US and EMU index. We maintain a mild equity OW due to risks: US structural overvaluation, pressure on 10-year yields (high gov. debt), Trump's induced volatility and toppish global macro surprises in the short term.

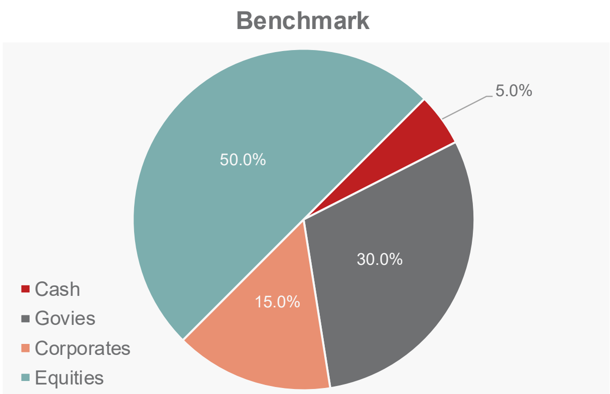
Tactically neutral on EMU vs US, and OW US IT. OW EMU longer term. OW EMs, MDAX, EU small cap. Within EMs, we prefer China and China IT, India, Korea and Poland. On a mid-term view, diversify US into equally weighted SPX, Gold miners, AI phase 4 – enhanced productivity and Uranium.

European sector allocation: maintaining a cyclical tilt

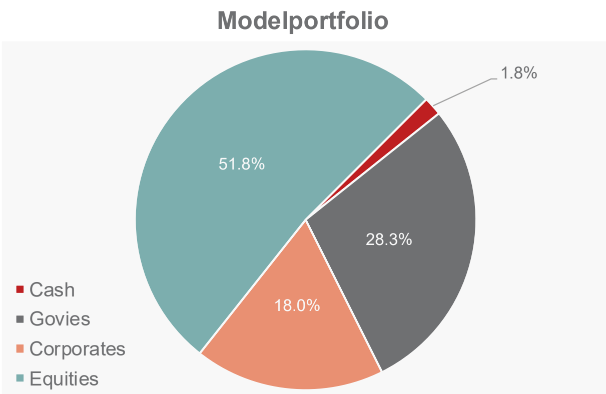
With the EU and the US reaching a trade deal, uncertainty is set to decline, which should support cyclical sectors. That said, we also focus on quality domestic exposure, as a depreciating USD supports the relative returns of domestic sectors with revenues generated outside the US. We move Commercial & Professional Services to Neutral due to better fundamentals, and further increase Retailing based on valuation and earnings revisions. Conversely, we reduce exposure to Construction Materials (still OW, but starting to look expensive), Media (negative revisions) and Staples (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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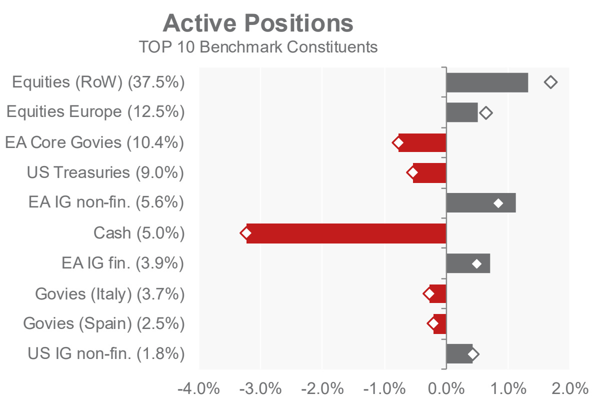


Source: GenAM; Benchmark weights in parentheses, diamonds indicating prev. recommendation

- **The performance ranking in July 2025 (29.07.25) was clearly dominated by Equities. They kept top position with returns from 1.5% for Japan and Europe ex-EMU to more than 2.6% for the US and EMs.**
- **The bottom positions of the ranking are held by long-dated Govies across all regions, clearly underperforming the short-dated ones. With -2.2% the bottom of the ranking is held by Japan 10Y+.**
- **On the Credit side, HY outperformed IG by a good 35 bps. Within IG, Fin outperformed non-Fin by around 16 bps and US underperformed EA by -40 bps.**
- **High imponderables around US tariffs leave risk assets vulnerable to setbacks. Yet, the peak uncertainty should have been overcome, even more after the US-EU trade deal.**
- **Thus, we stay constructive on risk assets but shift exposure from Equities to EA IG Credit and keep our overweight in HY. We reduce the overall duration stance to neutral, keeping the small long for the US.**

In July 2025 (29.07.25) our model portfolio outperformed its benchmark by around +5.3 bps. All in, the UW Cash (+3.3 bps) and the OW in Equities (+2.4 bps) proved most rewarding. Not surprisingly, the OW in Corporates turned out to be most painful (-2.2 bps), given the dominance of Equities in the benchmark and their strong performance. At the individual contribution level, we find the OW in US Equities (+1.6 bps) and the UW in UST 1-5Y (+1.3 bps) outstanding, while there is nothing striking on the negative side.

With the peak tariff uncertainty likely being passed, also underlined by the recent deal between the US and the EU, conditions for risk assets should remain rather favourable. However, their vulnerability to setbacks cannot be completely ignored due to the potential impact of Trump's incalculable economic policy on global trade. We see EA yields moving sideway in the short-run and rising towards Q4 given the German fiscal bazooka and stronger economic momentum. US yield are skewed to the downside. So, we reduce the overall duration stance to neutral, keeping the small long for the US.

Keep exposure to risk assets shifting from EQ to Credit

Balancing the reduced tariff uncertainty and the vulnerability to setbacks, we confirm our moderate overall pro-risk stance by re-allocating from Equities to EA IG Credit and keeping our OW in HY. We underweight lower-yielding fixed income, including Cash and Core Bonds. We are structurally bearish on the USD amid fading US exceptionalism & mounting US policy risk. Thus, we 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	1.5	0.0	1.6	0.0	1.9
Euro area	0.9	1.1	0.1	1.3	0.2	1.4
Germany	-0.2	0.3	0.3	1.5	0.3	1.4
France	1.0	0.6	0.1	0.8	-0.1	1.4
Italy	0.7	0.3	-0.2	0.6	-0.0	0.5
Non-EMU	1.0	1.2	0.0	1.3	0.0	1.5
UK	0.9	1.0	0.0	1.0	0.0	1.5
Switzerland	1.4	1.3	0.2	1.4	0.0	1.2
Japan	-0.1	0.5	-0.3	0.4	-0.3	0.6
Asia ex Japan	5.0	4.6	0.0	4.6	0.1	4.5
China	4.8	4.5	0.0	4.3	0.1	4.0
CEE	3.4	1.9	-0.1	2.1	-0.1	2.1
Latin America	1.8	1.9	0.0	2.0	0.0	2.5
World	**3.2**	**2.8**	**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	-0.1	2.5	-0.3	2.2
Euro area	2.4	2.0	0.0	1.8	0.0	2.0
Germany	2.3	2.1	-0.1	2.0	-0.0	2.0
France	2.1	1.2	0.1	1.5	-0.1	2.0
Italy	1.1	1.8	-0.1	1.8	0.1	2.0
Non-EMU	2.3	2.4	0.0	1.8	-0.2	1.8
UK	2.5	3.2	0.0	2.1	-0.3	2.0
Switzerland	1.4	0.2	0.0	0.6	0.0	0.7
Japan	2.7	2.9	0.1	1.5	-0.1	1.8
Asia ex Japan	1.8	2.0	0.5	2.1	0.2	2.2
China	0.4	0.5	0.3	1.0	0.2	1.5
CEE	19.1	14.3	1.6	9.1	0.5	6.9
Latin America[2]	4.7	4.7	0.0	3.9	0.0	3.2
World	**4.0**	**3.4**	**0.3**	**2.9**	**0.1**	**2.7**

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

Financial Markets

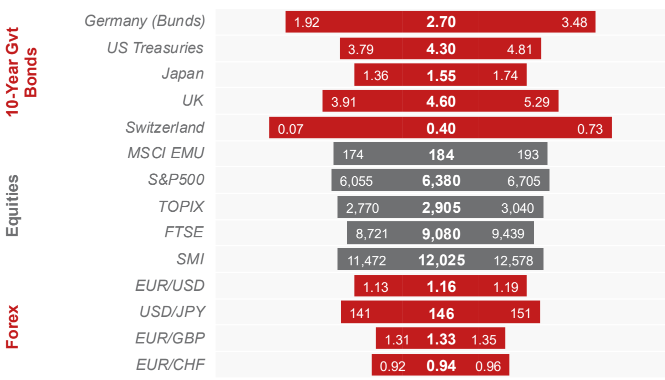
Key Rates	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
US (upper bound)	4.50	4.25	*4.05*	4.00	*3.80*	3.50	*3.29*
Euro area	2.00	1.75	*1.86*	1.75	*1.75*	1.75	*1.77*
Japan	0.50	0.50	*0.63*	0.75	*0.73*	0.75	*0.89*
UK	4.25	4.25	*3.85*	4.00	*3.68*	3.50	*3.49*
Switzerland	0.00	-0.25	*-0.09*	-0.25	*-0.15*	-0.25	*-0.11*
10-Year Gvt Bonds							
US Treasuries	4.37	4.30	*4.42*	4.20	*4.46*	4.05	*4.55*
Germany (Bunds)	2.70	2.70	*2.74*	2.75	*2.79*	2.95	*2.88*
Italy	3.55	3.55	*3.61*	3.60	*3.69*	3.80	*3.84*
Spread vs Bunds	*85*	*85*	*87*	*85*	*90*	*85*	*96*
France	3.36	3.40	*3.44*	3.45	*3.50*	3.70	*3.63*
Spread vs Bunds	*66*	*70*	*70*	*70*	*72*	*75*	*75*
Japan	1.57	1.55	*1.66*	1.60	*1.72*	1.70	*1.84*
UK	4.64	4.60	*4.68*	4.55	*4.72*	4.45	*4.82*
Switzerland	0.38	0.40	*0.41*	0.40	*0.44*	0.45	*0.50*

**3-day avg. as of 29/07/25*
***ICE BofA (OAS)*

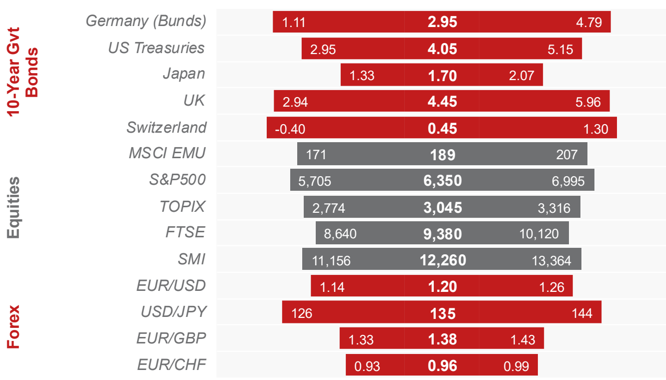
Credit Spreads**	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
EA IG Non-Financia	77	75		75		75	
EA IG Financial	81	80		80		80	
EA HY	275	275		275		275	
EM Sov. (in USD)	206	215		230		240	
Forex							
EUR/USD	1.16	1.16	*1.17*	1.18	*1.18*	1.20	*1.19*
USD/JPY	148	146	*147*	143	*145*	135	*143*
EUR/JPY	172	169	*172*	169	*171*	162	*170*
GBP/USD	1.34	1.33	*1.34*	1.36	*1.34*	1.38	*1.34*
EUR/GBP	0.87	0.87	*0.87*	0.87	*0.88*	0.87	*0.89*
EUR/CHF	0.93	0.94	*0.93*	0.95	*0.92*	0.96	*0.91*
Equities							
S&P500	6,383	6,380		6,300		6,350	
MSCI EMU	183.0	183.5		185.0		189.0	
TOPIX	2,930	2,905		2,970		3,045	
FTSE	9,113	9,080		9,210		9,380	
SMI	11,943	12,025		12,260		12,260	

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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