PERSONALIZED PORTFOLIO MANAGEMENT

Quarterly market review

JULY 2025

Editorial

During this first half of the year, the global economy demonstrated a degree of resilience, with growth rates close to long-term trends, despite the many surprises that punctuated this first part of the year. Traders were not only confronted with major changes in US trade policy, but also with strong geopolitical tensions which, had they persisted, at least in the Middle East, could have ultimately disrupted energy markets. All of this fuels doubts about the direction of monetary policy, in a context where many countries are also struggling on the budgetary front. It is undoubtedly still a little too early to make a firm judgment on how all these forces will evolve. But it is in any case encouraging to note the robustness of the US macroeconomic situation, even if in recent weeks, certain activity indicators seem to point towards a slowdown. It is also reassuring to see that the tariffs have not yet significantly impacted prices in the United States. And while many American companies were cautious about their year-end outlook, it's clear that the first quarter 2025 results were generally solid. All of this allowed the American stock market to rebound strongly following the downturn created by Donald Trump's surprise announcement of reciprocal tariffs on April 2nd. The S&P500, which had plummeted nearly 15% in three sessions, rebounded strongly throughout April. One month after this presidential decree imposing general customs duties of 10% on all countries starting April 5th and reciprocal tariffs of up to 25% and more for countries with which the United States has the largest trade deficits, the American stock market had recovered its losses. The 90-day deadline decided by the American president obviously played a role in this. May and June were of the same ilk, so much so that as of June 30, the S&P500 showed a rise of +5.50% YTD vs -15.00% as of April 8. A huge rebound, despite the flash crisis in mid-June between Israel and Iran that the markets will have apprehended, for once, with great calm. Traders were indeed reassured that Donald Trump was using all his influence to stop hostilities after 12 days, thus avoiding for the moment an escalation that could have proved dangerous for the global economy if Iran had, for example, decided to carry out reprisals in the Strait of Hormuz.

Europe, for its part, ended the first half of the year with a YTD gain of +8.32% for the Eurostoxx50 index. However, the trends are slightly different, as European markets had gained a significant lead during the first quarter. At the low point on April 8, the decline was only -5% YTD, compared to -15% for the United States. Over the recent period, however, momentum has been in favor of the United States, which has continued to rise, while European stock markets have been slightly down since their May 20 peak. Weaker growth in the Eurozone, combined with the European currency that has risen 13% against the USD since the beginning of the year, undoubtedly partly explains this relative sluggishness of European stock markets over the past month and a half. Not to mention the divisions emerging within the Union, which is struggling to implement its much-needed common defense project in the face of rising threats and recurring American threats to reduce aid to the old continent. Not to mention the budgetary problems of the important member state that is France, whose level of debt is frankly becoming very worrying.

On the long-term interest rate front, note that the German 10-year bond currently offers a yield of 2.67% vs. 2.40% at the end of 2024. A slight increase, then, with a sharp spike observed in mid-March following the announcement of the 500 billion bazooka plan over 12 years presented by Chancellor Merz, a plan accompanied by a constitutional reform of the "debt brake." This plan was perceived as a radical change of doctrine for Germany, longtime guardian of budgetary orthodoxy. Conversely, yields on the American 10-year government bond have rather eased, from 4.60 at the end of last year to 4.39% today, with even a brief drop below 4% in early April after the tariff announcement, when operators feared a devastating effect on global growth.

	Q2 2025	YTD 2025	Close 30/06/25
DOW JONES	4.98%	3.64%	44 094.77
S&P 500	10.57%	5.50%	6 173.07
FTSE 100	2.08%	7.19%	8 760.96
EUROST.50	1.05%	8.32%	5 303.24
CAC 40	-1.60%	3.86%	7 665.91
FTSE MIB	4.57%	16.40%	39 792.22
MSCI EM	11.02%	13.70%	1 222.78
CRUDE OIL	-8.91%	-9.22%	65.11
GOLD	5.75%	25.86%	3 303.14
EUR/USD			1.1787
EUR/CHF			0.9348
EUR/GBP			0.8583
EURIBOR 1M			1.925%

In emerging markets, we can only note their strong stock market momentum over the past few months. Like Europe at the end of last year, they were significantly undervalued compared to the United States, trading at around 12x earnings. A recovery has begun to take place, with the P/E of the MSCI Emerging Markets index now standing at around 13.6x earnings, following a stock market rally of 13.70% since the beginning of the year, largely aided by the recovery of the Chinese market, itself aided by the partial Sino-American trade agreement. This agreement follows discussions in Geneva (May) and London (mid-June), which established a general framework for breaking the impasse.

In summary, a good first half of the year, certainly marked by a lot of volatility on the stock markets, but which revealed some reassuring points: Donald Trump, to obtain 10 or 20%, is capable of asking for 140%, before retracting later, once his interlocutors are in shock. Some will speak of TACO Trade (Trump Always Chickens Out), others of pragmatism and the art of negotiation. In any case, the additional deadlines and flexibility granted for negotiations, the partial agreements already concluded (China), all this will have allowed a slight rebound in confidence surveys, whose metrics had collapsed just after Liberation Day.

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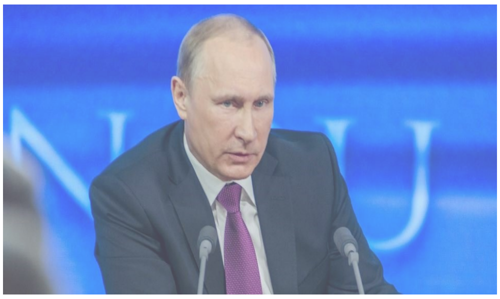
Moreover, inflation in the United States surprised on the downside for the fourth consecutive time in May 2025, despite the increase in customs tariffs in February, an encouraging signal, to say the least, that could pave the way for a more accommodating Fed in the short term. Some of the most optimistic economists might even be tempted to speak of a "Goldilocks" scenario characterized by resilient US growth, slowing inflation, and the prospect of rate cuts. Be careful, however, because during the second half of the year, inflation could briefly rise above 3% as tariffs gradually affect prices. So far, it has been businesses that have largely absorbed the tariff shock, reducing their margins and benefiting from inventories accumulated in the first quarter. But if inflation does accelerate in the second half, it will likely be temporary. The labor market is indeed beginning to show the first signs of slowing (see Macroeconomics section on page 3), a trend that is expected to continue due to the slowdown in consumption, pressure on margins from tariffs, and the brake on hiring posed by political and economic uncertainties. It is therefore unlikely that these price increases will put pressure on wages (second-round effect). Therefore, the Fed should continue its rate cuts in order to normalize its policy by the end of 2026, with a Fed Funds rate around 3.5%. This is in any case what the White House wants, despite the caution of Jerome Powell, the current (and on thin ice) governor of the FED. If this dynamic were to take hold during the second half of the year, it paves the way for US equity markets to remain constructive, especially since the "great and beautiful" budget law recently presented by the American president provides for short-term tax cuts, the increase of certain spending, particularly in the military, to keep the American industrial machine running, while austerity measures (apart from cuts in Medicare and green policies) seem to be postponed, much to the dismay of Elon Musk, who did not hesitate to sharply criticize this text. Prudence, however, after the recent formidable rally, valuations are once again a little stretched, with the S&P 500 now trading at nearly 24 times its estimated earnings for 2025. And a few clouds still remain on the horizon and require our particular attention:

First of all, on the geopolitical front, if the US bombing of Fordo, Natanz, and Isfahan on June 22nd put a stop to Iran's nuclear program, a question may arise. Is this a definitive halt or simply a purchase of time? In any case, Israel, ordered by Donald Trump to recall its aircraft, will sooner or later ask this question again, as the Iranian nuclear issue is an existential one for the country. No one can at this stage rule out new strikes on Iranian soil in 2025. And what would then be the reaction of the mullahs, already fairly humiliated by the recent bombings? Their anti-aircraft defense capabilities have certainly been undermined, but they retain the power to cause harm, through terrorism, for example, or by blocking the Strait of Hormuz.

In Gaza, the situation is anything but resolved: the humanitarian situation remains alarming, hostages are still being held by Hamas, and the Israeli authorities remain fiercely opposed to the two-state solution, as its Prime Minister reiterated yesterday.



Moreover, on the Ukrainian front, there has been little progress. Not only has Vladimir Putin failed to follow up on the American president's ceasefire proposals, but Russian attacks are even intensifying. Donald Trump, for his part, seems increasingly frustrated with Moscow, shocked likewise by the ongoing bombardment of civilians. Two days ago, he even publicly declared that "Putin talks a lot of bullshit about Ukraine," perhaps finally realizing after long months of procrastination that the Kremlin leader has no intention of deviating from his ultimate objective, namely to vassalize Ukraine like Belarus. This means a backtracking on the delivery of American defensive weapons to Ukraine. And a conflict which, if not resolved in two days, as promised, risks, on the contrary, prolongation. The financial markets would obviously do well without all these warlike uncertainties.

All the more since uncertainties surrounding the other war, the trade war, remain, especially with Europe. Today, July 9, was the deadline set by Trump to conclude an agreement with the Eurozone, but negotiations remain tense, to say the least, at the time of writing. The European executive aims to seal an agreement by August 1, according to Bernd Lange, chairman of the European Parliament's International Trade Committee. However, several sticking points remain, particularly the lack of a US commitment to an immediate reduction in customs duties and a moratorium on new taxes. According to the Financial Times, the European Union risks ultimately facing a minimum customs duty higher than that obtained by the United Kingdom, namely 10%. Currently, European exports to the United States are subject to significant tariffs: 50% on steel, 25% on vehicles, and 10% on most other products. Further increases are under consideration, including possible levies on semiconductors and pharmaceuticals. And just today, the breaking news of a proposed 50% tariff on copper. The market reaction was immediate, with this crucial metal surging 15% in a matter of hours. This is worth watching, as higher-than-expected US inflation this summer due to tariffs could delay the Fed's rate cut. Add to this fiscal concerns and debt sustainability issues, this could lead to a rise in long-term US yields and weigh on risky asset performance.

Faced with these uncertainties and the traditional upswing in summer volatility, we remain more faithful than ever to our philosophy: Diversification and quality, always with a foothold in emerging markets, more reasonably valued than American markets, and maintaining our European exposure, with a mix of styles between growth and value, small and mid-caps and large caps. Still a good bond exposure with perhaps a slightly more particular focus on quality bonds vs. high yield, given the current level of credit spreads, which are very tight. Maintaining our gold protection (physical gold and gold mines). And the use of decor-related funds (alternative or multi-asset), allowing us to have vehicles capable of posting positive performances, even in difficult stock markets.

Christophe Carrafang

Macro-economy

A gloomy start to the year reinforces central bankers' decisions

Price Index: Return to normal

- **In the Eurozone, inflation has stabilized for several months; +2% for the month of June, at the same level as the ECB's main rate. Significant differences remain between Eurozone countries: +0.9% in France, +2% in Germany, 2.2% in Spain, and 1.7% in Italy.**
- **In the United States, inflation is declining; +2.4% for June inflation, +2.8% for the index excluding cyclical items.**
- **Inflation is picking up in the United Kingdom; +3.4% compared to +2.8% in March.**

Job Market: Months go by and all looks the Same

- **The unemployment rate in the Eurozone is stable, around a historic low of +6.3%. With the slowdown in activity, this surprising figure is linked to demographic factors.**
- **The labor market indicators in the United States remain healthy. However, keep an eye on the ADP job creation indicator, which has turned negative for the first time in two years. The unemployment rate remains low at 4%.**
- **Although it remains low, the unemployment rate in the United Kingdom is rising, reaching 4.5%, compared to 3.9% in December.**

Manufacturing activity: Pending the finalization of all trade agreements, no significant improvement

- **Stabilization in the Eurozone, with the indicator rising from 48.6 in March to 49.5 in June.**
- **In China, the figures also failed to improve, reaching 50.4 and 49.7 at the end of the quarter.**
- **In the US, the indicator remains in the contraction zone at 49.**

Services activity: General deterioration towards contraction zones

- **In the Eurozone, the activity indicator has been stable at around 50 since the beginning of the year.**
- **Stable conditions are also evident in China, where indicators have been at broadly the same levels since October.**
- **Services activity in the world's largest economy is declining and approaching contraction territory (50.8 versus 53.5 in February).**

Damien Liegeois

Normalization of European inflation

2pm PERSONALIZED PORTFOLIO MANAGEMENT

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The Big Picture

How far will the dollar fall ?

For several months, the US dollar has been on a downward trend against the world's major currencies. This weakness is attributable to several factors. First, investors anticipate that the US Federal Reserve will adopt a more accommodative monetary policy. Second, the economic slowdown in the United States, combined with better controlled inflation, is reinforcing this trend. Furthermore, geopolitical tensions and the diversification of foreign exchange reserves by certain central banks (particularly in Asia and the Middle East through massive gold purchases) are also weighing on the currency.

Another factor fueling pressure on the dollar is growing uncertainty surrounding US debt. It has reached historic levels and is raising concerns about the country's fiscal sustainability. Recurring debates in Congress over raising the debt ceiling, combined with persistent public deficits, are weakening investor confidence in the financial stability of the United States, and therefore in its currency.

Added to this is a political dimension: Donald Trump is campaigning for a weaker dollar. According to him, a weaker currency makes American exports more competitive internationally, which would promote growth and reduce the country's trade deficit. This vision is part of a logic of supporting domestic industry and rebalancing foreign trade.

However, several factors could halt this decline or at least stabilize the currency. The dollar remains an essential safe haven. In times of geopolitical or economic instability, such as during tensions in Europe or the Middle East, investors seek security and bank en masse on the greenback, considered a safe and liquid asset. If the US economy shows a stronger-than-expected recovery (see Special Topic), this would strengthen the dollar's attractiveness. A well-performing economy attracts foreign capital, which fuels demand for the currency. Finally, beyond cyclical fluctuations, the dollar benefits from strong structural confidence. It is based on stable financial institutions, a deep bond market, and regulatory transparency, which reassure global investors. US Treasury bonds remain a global benchmark, and many central banks maintain significant dollar reserves, reinforcing their status as a pillar of the international monetary system.

The dollar's decline has not been without consequences for international investors. Those exposed to US markets have posted negative performance over the year due to the dollar's decline, even though stock market performance remains strong.

Damien Beasse

Special Topic

Should we fear a US recession ?

Three months after our initial analysis, while awaiting the finalization of bilateral tariff agreements between the US and its trading partners, global activity is slowly deteriorating, starting with the US economy. Barring any last-minute surprises, however, everything suggests that the rates applied will be relatively reasonable and that, on this basis, economic policymakers will finally be able to act and shake the economy out of its torpor.

At the same time, the measures passed on July 4 as part of the Republican budget should logically revive US growth and thus prevent further economic deterioration.

The combination of tax cuts for businesses and households, and the redirection of spending toward industrialization and defense, generally has a rapid impact on economic activity. Some experts predict a net impact of +0.5% to +1% in additional growth over the next 10 years. Others are concerned about the impact of social spending cuts on household consumption. Another unknown factor, in the longer term, lies in the ability to create enough growth to offset the increase in public spending.

The other crucial element of this law, for the economy, is the banking component, which allows major American banks to regain some leeway in order to boost lending. The proposed deregulation—lowering capital requirements—abandoning certain Basel III rules—relaxing merger and acquisition rules—will allow financial institutions to increase their lending activities. We're talking about several trillion dollars of additional capacity, which, along with the upcoming Federal Reserve rate cuts, will inevitably stimulate economic activity.

Financial markets seem to be confirming this positive scenario; US stocks, after their April dip, have regained momentum, with double-digit index gains over the last quarter and new highs on the S&P 500 and Nasdaq. Moreover, spreads on high-yield bonds have tightened, and the yield curve remains steep between the 2-year and 30-year maturities.

Other good news, with the decline in inflation, consumer confidence has recently begun to rebound.

The next step will be to see this improvement reflected in economic figures for the second half of the year. Although the job market is currently holding up, US manufacturing (49) and services (50.8) indicators are still hovering near contraction levels.

Damien Liegeois