Investment Outlook

NOT ALL US RISK IS EQUAL

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RATES

UST

We turn tactically LONG (previously NEUTRAL).

1) 10Y yields broadly reached our accumulation threshold (4.50-4.60%).
2) Growth is set to weaken in Q3 after a technical, imports-related, Q2 rebound.
3) Services disinflation (60% of CPI basket) continues.
4) We expect tariff-driven inflation to be short-lived, consistent with headline inflation reaching the target in H1 2026.
5) Current Fed pricing slightly more aggressive than our baseline of two cuts in H2 2025.
6) The US Treasury appears keen to shorten the duration of new issuance.
7) Fed independence is reportedly at stake: any weak data would hit yields disproportionately.

We recommend, however, **a slow build-up**.

8) We do not expect the US economy to enter recession this year.
9) June CPI suggests some tariff-related (goods) inflation is coming through.
10) The budget is expansionary in the near term and frontloads the deficit increase in 2026–2029.

Strategically, we remain CONSTRUCTIVE with a NEGATIVE outlook, as the medium-term outlook remains highly uncertain and heavily dependent on the policies of the Trump administration.

Bund

The German government surprised the market with the announcement of a fiscal easing package that is more aggressive and front-loaded than expected. Although the plan looks ambitious, it seems that the authorities are serious about it, as the recently announced refinancing plan for Q3 shows.

While trade policy uncertainty and an expected moderation in growth in Q2 and Q3 will likely slow down any increase in yields in the near term, **we think the direction**

of travel for Bund yields is higher. Especially at the belly of the curve and longer maturities, and we expect the upward movement to gather momentum once uncertainty around tariffs dissipates.

Accordingly, **we remain tactically LONG on Bunds, but we have raised the threshold to switch to NEUTRAL to 2.50-2.60%** (previously, the threshold to take profit was set at 2.30-2.40%) **and have raised the accumulation bar back to 3.0-3.10%** (from 2.70-2.80% previously).

While our model suggests that 10Y Bund yields could go as high as 3.50%, we expect a less sizeable increase in the near-term, owing to our expectations that demand for German bonds will be solid going forward.

Strategically, we remain NEUTRAL, as we expect the German fiscal package and its implementation to become the main theme in rates markets over the medium term, possibly tilting the balance of risks perceived by the market for EA growth and inflation to the upside.

BTP

Last month we recommended beginning to reduce exposure to BTPs, while remaining LONG. This month, in line with our view on Bunds, **we remain LONG, but we have set the threshold for switching to NEUTRAL at 3.40-3.50%.** Meanwhile**, we set the accumulation bar at 3.90-4%.**

Strategically, we remain NEUTRAL, as we anticipate that trade-related uncertainty will be counterbalanced by increased EU spending.

EQUITY

We are turning tactically NEUTRAL (previously LONG). **We expect the strong equity rally that began in April to pause as we move through August**. At this stage, the balance of risks appears fair even: tailwinds (including still solid corporate fundamentals, continued dollar weakness, and a supportive macro backdrop) may be offset by headwinds, such as a less responsive market reaction to further geopolitical easing, rich valuations, and adverse seasonal trends.

Against this backdrop, we recommend a less aggressive stance, **anticipating that investor participation will slow after the initial stage of the reporting season.** However, we 1) suggest building positions opportunistically, given the still volatile environment, and 2) caution that the sideways trend may not last long if either fear of missing out or fear of underperformance prevails during the summer.

From a regional perspective, the US remains our preferred market, supported by stronger earnings revisions and continued improvement in capital flows. We maintain a NEUTRAL stance on Continental Europe and EM, and a SHORT position on Japan and the UK.

From a sector standpoint, we remain constructive on Cyclicals, albeit with a reduced tilt. We continue to favour Growth sectors. Amongst Value sectors, Banks and Diversified Financials remain our top picks, especially in the US.

Strategically, we reiterate our OVERWEIGHT stance on equities and view any market weakness as a buying opportunity. We expect the global benchmark to record new highs in the second half of the year, supported by an acceleration in US GDP in 2026 and easing inflation concerns.

Against this backdrop, **we continue to favour Cyclicals over Defensives**, with a bias towards Growth-oriented names. Regionally, **we prefer the US**, anticipating its leadership in global equities will persist, driven by its Large Cap names.

FX

EUR/USD – Tactically, we remain NEUTRAL (also NEUTRAL on the DXY) as near-term risks appear broadly balanced. On one side, trade tensions (which are dollar negative) are receding, while concerns over Federal Reserve independence (also dollar negative) seem overstated. On the other hand, heading into Q4, we expect the US economy and labour to continue outperforming Euro Area economic momentum (which is dollar positive).

Strategically, we turn LONG EUR/USD (SHORT DXY). Looking ahead to 2026, we anticipate the macro divergence between the US and Euro Area regarding 1) the growth-inflation mix and, 2) monetary policy to gradually shift in favour of the EUR, pushing EUR/USD higher.

JPY – Tactically, we remain NEUTRAL. The recent improvement in global risk appetite is likely to limit any significant short-term yen appreciation.

Strategically, we remain LONG, as we continue to expect further rate hikes by the Bank of Japan this year, driven by persistently high core inflation exceeding target. However, we anticipate the BoJ will slow its tightening pace to avoid excessive market volatility and ensure clearer communication, especially amid ongoing uncertainty around US trade policy both with Japan and globally. Consequently, we anticipate the next increase in September, followed by another in December or early 2026.

GBP – Tactically, we remain NEUTRAL. The UK's successful trade agreement with the US supports our view that domestic demand will help sustain growth momentum. While the 10% tariffs under the deal may slightly reduce net exports and modestly weigh on output in the near term, the overall economic impact should remain limited.

Strategically, we remain SHORT (particularly favouring long EUR/GBP positions), as we anticipate the Bank of England to respond to below-trend growth and a weakening labour market with further monetary easing. We continue to expect an additional 50 basis points of rate cuts through 2025.

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