Investment Outlook

PLUS ÇA CHANGE

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RATES

UST

We remain tactically NEUTRAL + Continue to think US yields have some further upside from current levels:

1) Trade tensions are de-escalating (↑).
2) The US economy remains in good shape: incoming data point to a technical rebound in GDP growth for Q2, while robust income growth is keeping consumer spending afloat (↑).
3) Core disinflation continues, yet the inventory built up in Q1 may postpone the temporary tariff-related price level boost we expect (↑).
4) The final version of the budget may be slightly more expansionary than the draft approved by the House (↑).

However, we lower the bar for gradually starting to accumulate to 4.50-4.60% (from 4.70-4.80% previously). This is because, following the weak May CPI print, it seems unlikely that markets will price in fewer than two rate cuts by the Fed this year. Accordingly, we now see a lower probability of UST yields rising significantly compared to last month.

Strategically, we remain CONSTRUCTIVE with a NEGATIVE outlook, as a more accommodative-than-expected fiscal stance could lead to an increase in the term premium. That said, we believe the strategic outlook remains highly uncertain and may evolve depending on developments in the growth outlook and fiscal policy over the coming months.

Bund

Tactically, we remain LONG, and we continue to recommend increasing exposure at 2.70-2.80% and taking profit at 2.30-2.40%, for the following reasons:

1) While recent developments on tariffs may ease investor concerns about their impact on euro area (EA) growth, we still expect EA economic activity to slow down amid trade uncertainty (likely to persist longer than in China and the UK) and weakening domestic demand.
2) We believe the ECB remains too optimistic in its growth and inflation outlook, and we continue to expect two additional rate cuts this year (compared to only one currently priced in by markets).
3) The EA fiscal stance remains growth-neutral this year.

Strategically, we remain NEUTRAL.

On the one hand, the US tariff policy has increased the likelihood of further institutional progress in the EU, particularly in advancing common defence initiatives and the proposed European Union for Savings and Investment. In addition, market expectations that Germany will fully deliver the fiscal spending pledged by the previous government could put upward pressure on yields. On the other hand, persisting uncertainty around tariffs remains supportive for Bunds.

BTP

Given that BTPs have tightened sharply relative to the rest of the EGBs, with the 10Y BTP-Bund spread reaching its lowest level since 2008 **we remain LONG but recommend reducing duration exposure.**

Why not outright NEUTRAL? For the following reasons:

1) The correlation between Bunds and BTPs remains positive and high. If Bund yields decline in the short-term (our baseline), we would expect BTP yields to decline in tandem.
2) The macroeconomic, fiscal and political outlook remains positive.
3) While net supply in Italy will be positive in June and July, it is expected to turn negative again in August and September.

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

EQUITY

We turn tactically LONG (from NEUTRAL previously). **We believe there is still room for stock prices to rise in the near term**, supported by the following positive catalysts:

1) **Recent trade war dynamics suggest that both the US and China want to avoid further escalation** (our baseline). Therefore, we expect that the tariffs announced on Liberation Day and subsequently paused will not be implemented by the US administration on 9th July. At worst, we expect a postponement.
2) **The impact of existing tariffs appears manageable.** The US administration has focused on sectors with minimal domestic downside, such as steel, while the effect of the 10% global tariff has been mitigated. It is being partially absorbed by foreign exporters, domestic suppliers, and inventory adjustments.
3) **Macro prospects have deteriorated but not collapsed.** Given already downbeat expectations, economic activity remains supportive of corporate fundamentals on a relative basis. In this context, we expect the upcoming earnings season to deliver upside surprises compared to market expectations.
4) **Market sentiment remains somewhat cautious**, especially in the US.
5) **Favourable seasonality**: July is historically positive for equities, before the typical weakness seen in August and September.

That said, we recognise the following challenges:

1) **The equity rebound has been quite strong,** with the MSCI AC World Index up by 18pp from its April trough and now trading less than 2pp below its all-time high.
2) **The geopolitical environment and news flow remain highly fluid.**

Against this backdrop, we are now more constructive on the asset class, but recommend an opportunistic build-up of positioning, given the still-volatile environment.

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

From a sector standpoint, we remain constructive on Cyclicals, with a slight preference for Growth sectors. We continue to selectively favour the Magnificent 7, as well as Banks and Diversified Financials on both sides of the Atlantic.

Strategically, we reiterate our OVERWEIGHT stance on equities and view any market weakness as a buying opportunity. At this stage, downside risks (such as a potential recession) and upside risks (including supportive fiscal policy and a possible peak in tariffs) appear broadly balanced. Within this context, **we continue to favour Cyclicals over Defensives, with a preference for Growth-oriented names.** Regionally, **we maintain a preference for the US,** expecting its leadership in global equities to persist, driven in large part by its large-cap stocks.

FX

EUR/USD – Tactically, we remain NEUTRAL (NEUTRAL on the DXY). The recent round of US-China negotiations held in London concluded with an agreement to reduce additional tariffs to 30% - i.e. below the level pledged by President Trump during the electoral campaign (60%). While this outcome falls within our previously anticipated range of 25% to 30%, the timing of the deal came earlier than expected, which we view as a constructive development for market sentiment.

We believe this outcome will positively support the US dollar through:

1) Further steps in removing the negative sentiment toward the dollar that has accumulated among market participants since Liberation Day; and

2) The reestablishment of the traditional "risk-on, dollar-down" dynamic, which we expect will allow the EUR/USD exchange rate to consolidate within the 1.12–1.15 trading range.

Strategically, we remain NEUTRAL (NEUTRAL on the DXY), though we now see the balance of risks tilting toward further dollar softness. While tensions between the US and China continue to de-escalate, the ECB is likely to deliver more rate cuts (two) than the market currently expects (one).

JPY – Tactically, we remain NEUTRAL. With the United States and China nearing the finalisation of an agreement to reduce tariffs to 55%, we anticipate that the resulting improvement in global risk sentiment will limit near-term yen appreciation. **Strategically we remain LONG**, as we continue to expect the Bank of Japan to proceed with interest rate hikes this year, supported by persistently above-target core inflation trends. That said, we now believe the BoJ may slow the pace of its hiking cycle. This revised view is based on two key considerations:

(1) The recent sharp rise in yields, which may prompt policymakers to act cautiously to minimise market disruption, and

(2) A desire to reduce volatility in communication and guidance until there is greater clarity around the trajectory of US trade policy. In light of this evolving context, we now expect the next rate hike to occur between July and September, followed by a subsequent move in December or early 2026 (vs. two hikes in Q3 previously anticipated).

GBP – Tactically, we remain NEUTRAL. With the United Kingdom having successfully secured a trade agreement with the United States, we continue to believe that the country's growth momentum is likely to remain intact, supported by stable domestic demand. Under the trade deal, we expect the 10% tariffs to exert a small drag on net exports and to slightly weigh on economic performance over the coming quarters. **Strategically, we maintain our SHORT position**, as we believe the Bank of England is prepared to implement further monetary easing in response to below-potential growth and a gradually loosening labour market. We reaffirm our projection of an additional 50 basis points in rate cuts throughout 2025.

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