

Investment Outlook

HOLDING THE LINE

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RATES

USTs

We remain tactically NEUTRAL:

- 1) Long-dated UST yields trade at the 2025 lows, despite solid growth and tariff-related upside risks to inflation.
- 2) A dovish Fed, against the backdrop of easing financing conditions, is supportive of an already favourable growth environment.

We continue to recommend **increasing exposure at 4.50%-4.60% and turning SHORT at 3.80%**.

Strategically, we maintain a NEUTRAL position. While current yield levels remain historically appealing, barring a sudden slowdown in economic momentum - which is not our baseline - we believe there is very little room (if any) for yields to decline from current levels. **In fact, we continue to see risks skewed more towards higher rates from here**, owing to an outlook of solid growth, tariff-related upside risks to inflation, an overly dovish Fed, a build-up of the political risk premium and accelerating supply pressure.

The main risk to our strategic NEUTRAL positioning on USTs is a further deterioration in the macroeconomic outlook, with the US economy possibly flirting with recession - a scenario that would justify an accelerated rate-cutting cycle.

Bund

Following the recent rally, 10y Bund yields reached the upper bound of our neutral area (2.50%-2.60%). Accordingly, **we suggest downgrading our positioning on Bunds one notch to NEUTRAL**. At this stage, risks associated with holding a LONG position are asymmetric.

While we continue to believe that the market's pricing of the ECB (no rate cut by year-end) is too hawkish, given our projection of anaemic euro area growth this year and ongoing disinflation, we believe that one more rate cut (either in December or March) could squeeze long-term rates further by no more than 10bp - not enough to offset upside risks to yields stemming from a likely acceleration in growth and a substantial increase in supply.

Against this backdrop, **we continue to suggest turning LONG at 3.00%-3.10%, while we would now turn SHORT at 2.45%** (previously NEUTRAL at 2.50%-2.60%).

Strategically, we remain NEUTRAL. With EA growth expected to accelerate in 2026 and Bund supply rising sharply, the medium-term bias for Bunds remains upward,

although strong demand for EA government bonds is likely to partially offset this upward pressure.

BTP

We remain tactically NEUTRAL. We continue to believe that the potential for a further decline in the spread in the near term is limited. At the same time, BTPs remain closely correlated with Bunds.

We maintain the accumulation bar at 3.90%-4.0%, while we would turn tactically SHORT at 3.20%.

Strategically, we remain NEUTRAL.

- 1) The strong and positive correlation with Bunds suggests an upward bias for BTP yields in the medium term.
- 2) In the absence of a decisive improvement in the European infrastructure, we do not expect a further sharp tightening of periphery spreads, as the progress of macro convergence between the periphery and the core is likely to slow.
- 3) We expect solid demand for BTPs (due to appealing yields and a steeper curve compared to Bunds), and an improvement in the fiscal outlook to offset at least some of the upward pressure on yields.

EQUITY

We remain tactically LONG. We expect the market to continue grinding higher as the reporting season for Q3 unfolds. We anticipate positive earnings surprises to lead the main equity indices towards new all-time highs. Further tailwinds come from positive seasonality, dollar weakness, and market participants' sentiment not yet at euphoric levels, despite the rally posted so far. Compressed volatility and rich valuations may trigger temporary market weakness, but in such event, **we would remain buyers of dips.**

From a regional perspective, we now neutralise any previous market preferences, expecting the bull market to broaden across regions. We cut the US and Japan to NEUTRAL (previously LONG), while we upgrade the UK to NEUTRAL (previously SHORT).

From a sector standpoint, we still favour cyclical AI-related sectors. Among traditional cyclical Value, we maintain our longstanding LONG stance on Banks, expecting them to benefit from the resilient macro backdrop and the expected ongoing curve steepening. Pharma remains our preferred defensive sector. On style, we point out that Value has now become the Quality part of the market, whereas such a tilt used to characterise the Growth side.

Strategically, we reiterate our OVERWEIGHT stance on equities and view any market weakness as a buying opportunity. We expect the global benchmark to reach new highs in Q4 and accelerate in 2026, driven mostly by high single-digit EPS growth. Already rich valuations limit gains from multiple expansion, which was the main driver of last year's rebound.

Regionally, we prefer the US and EM due to their predominance in the AI space and idiosyncratic catalysts such as monetary and fiscal easing in the US, an expected weaker USD, and light positioning within EM. Sector-wise, we favour Cyclical over Defensives, with a bias towards growth-oriented names.

FX

EUR/USD – Tactically, we turn NEUTRAL on EUR/USD and DXY (from LONG EUR/USD and SHORT DXY). The prolonged US Government shutdown has discontinued data releases, blurring our and market participants' sense of the direction of the US economy in the short term. Therefore, we cautiously prefer to assume a neutral stance on the dollar as long as the shutdown persists. **Strategically, we remain LONG on EUR/USD and SHORT on DXY.** By 2026, we anticipate several factors will continue to weigh on the dollar: the rebalancing of the US current account following the impact of tariffs, a medium-term trend of FX reshuffling among market participants moving into other major currencies, and persistent uncertainty surrounding Federal Reserve independence, especially with Powell's planned departure in May. We caution that a less pronounced US/EA macro divergence might represent a tail risk to our bearish dollar view.

JPY – Tactically, we turn NEUTRAL (from LONG). We extend our more cautious dollar stance in the short term to the USD/JPY cross, owing to the US macro data blackout. **Strategically, we remain LONG,** expecting the Bank of Japan to continue raising rates this year due to persistently elevated core inflation. However, we anticipate the BoJ will moderate the pace to minimise market volatility. We expect the next hike in December, followed by another by Q1 2026.

GBP – Tactically, we remain NEUTRAL. A lack of domestic drivers should continue to leave the GBP somewhat muted. **Strategically, we remain NEUTRAL.** The Bank of England may lag the Fed in cutting rates due to more uneven disinflation momentum in the UK vis à vis the US. Furthermore, we anticipate that the UK-US trade deal should sustain growth, as 10% tariffs may only modestly impact output. We expect an additional 50 basis points of rate cuts through the first half of 2026. Our preference remains for long EUR/GBP positions.

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