MARKET INSIGHT

June 2025

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D. Trump convinces markets he will always back down, perhaps too much?

The month of May was anything but calm on the economic and financial development front. On the positive side, we note the agreement between China and the USA on tariffs and the (still to be confirmed) decision by a U.S. court to invalidate the reciprocal tariffs imposed by the Trump administration.

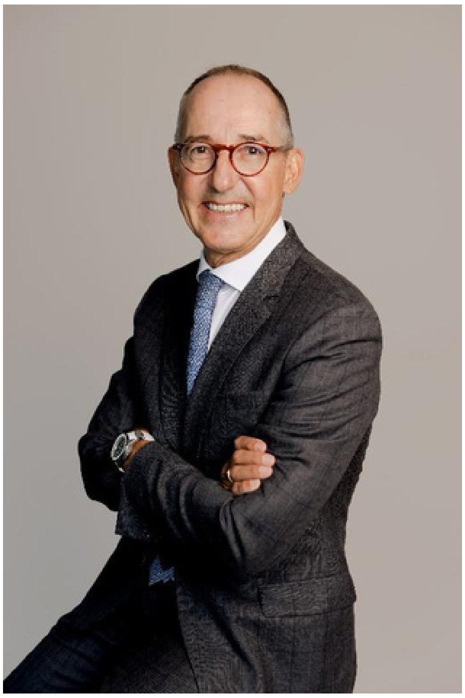
Added to this were a solid earnings season and encouraging results from the “Magnificent 7,” as illustrated by the figures published by NVIDIA, confirming that the artificial intelligence theme remains valid.

On a more negative note, persistent doubts about the sustainability of the U.S. budget deficit and debt, pressure on US long-term yields, the decoupling between those yields and the dollar, and the “tremors” in yen-denominated sovereign bonds should be highlighted. Of course, the situation on the trade war front is far from clear.

Investors have clearly decided to see the glass as half full, as illustrated by the S&P 500’s best monthly performance since November 2023.

The strong performance of high-yield debt and the outperformance of U.S. equities over their European counterparts (thanks to AI/technology) confirm a renewed appetite for risk.

Put forward by a Financial Times columnist, the famous TACO (Trump Always Chickens Out) may indeed be at play among market participants. The Trump “method” would now be integrated by them: for each “major” announcement (tariffs, Fed threats, etc.), there is an – inevitable – retreat by the President. However, caution is warranted to avoid falling into complacency!



« The rebound in risky assets in May somewhat surprises us. »

FRANÇOIS SAVARY, CIO

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Indeed, some underlying elements of the equity rally (retail investors bought massively on weakness, triggering short-covering by hedge funds) should not be ignored.

We will not complain about risky assets regaining ground, given the positive impact on portfolio performance in recent weeks.

The reduction of tariffs initially imposed by the U.S. is good news for equity markets, even if it remains difficult to determine at what level they will ultimately be set.

The positive shift in the Sino-American trade conflict nevertheless led us, in May, to revise:

1. our economic scenario probabilities for the coming months; and

2. our target for the S&P 500 index upward to 6000 for end-2025.

The reduced risk of recession (from 30% to 20%) explains the change in our target for the main U.S. stock index. Indeed, the likelihood of a contained slowdown, both in scope and duration, now seems more credible (50% instead of 45%) compared to April.

This would help mitigate the risk of another significant decline in equities, despite a likely cyclical slowdown in the U.S. However, one should not overlook the fact that U.S. equities are far from cheap after the recent rally.

Because we remain convinced that equity potential is limited over a six-month horizon, and given the continued lack of economic and financial visibility, a neutral weighting on equity markets still seems appropriate.

While European equities underperformed their U.S. counterparts during the recent sharp rebound, we remain inclined to favor them in the new global context that is taking shape.

Some economic indicators point to a positive inflection in the economic cycle on the Old Continent, while fund flows into European stock markets have been accumulating in recent months after years of "lean times."

Likewise, despite their weaker performance since the April lows, defensive stocks remain well represented in our allocations. One should not rule out the risk of a return of volatility in equity markets, driven by uncertain economic and financial developments over the 3–6 month horizon. These stocks remain relevant as part of a sound volatility management strategy, which continues to be a pillar of our investment approach.

« After a long absence from these markets, we have built a solid position in emerging market equities over the past two months »

However, we have not returned to our original target set at the beginning of the year (6400), as the risk of a stagflationary drift remains (30%).

Only in the coming months will we be able to get a clearer picture of how tariffs might affect prices across the Atlantic.

In this context, the unabated downward trend in oil prices since the beginning of the year is positive news. If it persists over the summer, we may be inclined to describe the stagflation scenario with the qualifier "temporary."

Such an evolution in oil prices would strengthen the likelihood of the Federal Reserve easing its policy in the fall, as we continue to expect two rate cuts by the end of 2025.

Following the introduction of a specific investment in Indian equities in April, the willingness expressed by Beijing and Washington to find a trade compromise led us to invest broadly in emerging markets.

In addition, the continued depreciation of the dollar (almost 10% since the start of the year) is a positive factor for emerging countries (reduced external constraints and strengthened monetary autonomy).

After a long period during which we remained on the sidelines of emerging market equities, we have therefore built a “solid” position in these assets over the past two months. In both aforementioned cases, ETFs appeared to us as the best available option.

As mentioned, the weakness of the U.S. dollar has remained consistent since the beginning of the year. This evolution aligns with our expectations.

Our recommendation to reduce USD exposure in dollar-denominated accounts has contributed positively to their performance since the beginning of the year.

Conversely, despite a significant reduction in our dollar risk exposure over several months, euro and CHF reference accounts have suffered from the persistent weakness of the greenback.

More generally, one must not overlook the decoupling between U.S. interest rates and the evolution of the EUR/USD exchange rate, for instance. This trend signals a loss of confidence in the dollar, linked to the deterioration of public finances, a situation exacerbated by the recent 2025–2026 budget law under discussion in Congress.

While the perpetuation of tax cuts may somewhat stimulate the economy, it will also generate an additional $3 trillion in debt over the next 10 years and should worsen the fiscal balance in the short term.

It must be kept in mind that the U.S. now devotes more than $1 trillion to servicing its debt!

Hardly reassuring for investors! In such a context, we believe a continued decline of the USD is likely over the coming months, especially if the Federal Reserve goes ahead with further monetary easing once inflation risks are under control.

Accordingly, we raise our EUR/USD target to 1.20 for end-2025. A target of 1.25 in 2026 also appears credible.

The Swiss franc remains a safe haven under current conditions. The SNB is expected to cut rates in June to bring them back to 0%.

Swiss monetary authorities have clearly stated that a return to negative rates is on the table in a later phase, if necessary.

We remain skeptical, however, about the advisability of such a measure—unless it becomes substantial.

Moreover, the introduction of negative rates would not come without disturbances and could provide ammunition to the U.S. in its fight against “currency manipulation.”

We maintain our view of a strong franc over the coming months, with a target of 0.92 against the euro—possibly even 0.90 in the not-too-distant future. Diversification into the Swiss franc remains an attractive solution.

Gold is another safe haven—if not the main one—in investors’ minds. After a brief consolidation around the 3150–3200 area, the yellow metal resumed its upward trend.

Investor interest in this asset has been reinforced by confirmation of new large purchases by China in April.

Because we still believe that the 3500 level will be tested again in the coming months, we remain heavily invested in gold in our allocations.

To conclude, a word on the bond market:

The least one can say is that May was not without turbulence for sovereign debt. Last month saw the first negative monthly performance of 2025 for the U.S. Treasury market, with the 30-year yield rising above the 5% mark.

On the other side of the Pacific, the volatility in Japanese government debt was significant (with the 30-year exceeding the 3% mark).

This development is far from trivial and could have implications for both the BoJ's policy and the USD carry trades that have "exploded" over the past 10–15 years.

We remain convinced that long durations in sovereign bonds are not attractive, and we confirm our decision to stay away from them, especially in the United States.

Likewise, we maintain our choice to favor credit in our bond allocation.

After a month of May in which high-yield debt outperformed higher-quality debt, profit-taking in the high-yield segment may be considered.

Adopting a more cautious stance in this segment seems, at the very least, a reasonable approach.

In conclusion, whether it's the TACO effect or investors' ability to maintain a strong buy-the-dip mentality, the rebound in risky assets in May somewhat surprised us.

While the prospect of a retest of the early April levels has clearly faded—thanks in part to an improved macro environment expected over the next 6–12 months—it would be wrong to assume we are living in a risk-free world.

Visibility, though improved, remains limited. It is on this basis that we will continue to shape our investment strategy over the coming weeks.

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