



The Way We See It

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*Still unsettling times ahead.
Range-bound markets.*

INSIDE THIS ISSUE

1. Review of Developments
 - Global Economies
 - Global Markets
2. Market Outlook
3. The Way We See It
 - Global Markets and Investment Thematics
4. Postscript

A brief update report which serves to review the recent market development and to offer our outlook for the rest of the year and beyond.

Review of Developments

- Global Economies

Early estimates indicate that the U.S. economy experienced a significant rebound in the second quarter of 2025, with GDP expanding at an annualized rate of 3.8%, following a revised contraction of -0.2% in the first quarter. These fluctuations stem primarily from heightened imports in the earlier period—prompted by efforts to circumvent impending tariffs—which subsequently declined in the second quarter, thereby contributing positively to growth. Consumer demand, while still expanding, has begun to decelerate due to persistent uncertainties surrounding trade policy, DOGE, immigration reforms, and elevated interest rates. Furthermore, tighter financial conditions and political unpredictability have caused businesses to approach investment decisions with increased caution, potentially impacting labor market trends and productivity.

A survey of U.S. corporate executives and leading economists from global financial institutions assigns a 25-35% probability to a U.S. recession in 2025-26, marking a slight reduction from prior estimates.

Nonetheless, GOJI's base case for the U.S. and the world economy is a soft landing scenario, where economic conditions stabilize rather than deteriorate into a deeper downturn. While the broader economy remains resilient, particular sectors, including manufacturing and housing, are showing signs of strain due to sustained cost pressures and shifting trade dynamics.

Recent estimates for major economies suggest continued moderation in growth. Following the European bloc's mild first-quarter expansion, Germany is expected to lead among its larger counterparts. In Japan, the marginal economic contraction recorded in the first quarter may be offset by substantial wage increases, which could bolster domestic consumption, though exports are expected to remain a constraint. Meanwhile, China is likely to assume a prominent role in global growth this year, driven by government-led efforts to stabilize the property sector's debt challenges, a resurgence in AI-related private sector activity, and fiscal stimulus measures aimed at strengthening consumer spending. In addition, the government's more conciliatory approach to large private conglomerates is expected to provide further support to recovery.

Despite recent U.S.-China tariff negotiations in Switzerland resulting in a partial rollback, the Chinese export sector remains under pressure. Weak demand from the U.S. and other global markets, coupled with continued relocation of production facilities to alternative regions, is expected to weigh on trade performance. Additionally, geopolitical tensions continue to introduce uncertainties into international commerce, prompting firms to reassess long-term strategic positioning.

Inflation trends across Europe and other OECD nations indicate a steady deceleration in both headline and core measures, reinforcing expectations for further interest rate reductions. In contrast, although core inflation in the U.S. has moderated, it remains above 2.5% annually, with potential near-term upward pressure from higher tariffs on imported goods. Despite a modest

China might assume a prominent role in the sub-par global growth this year.

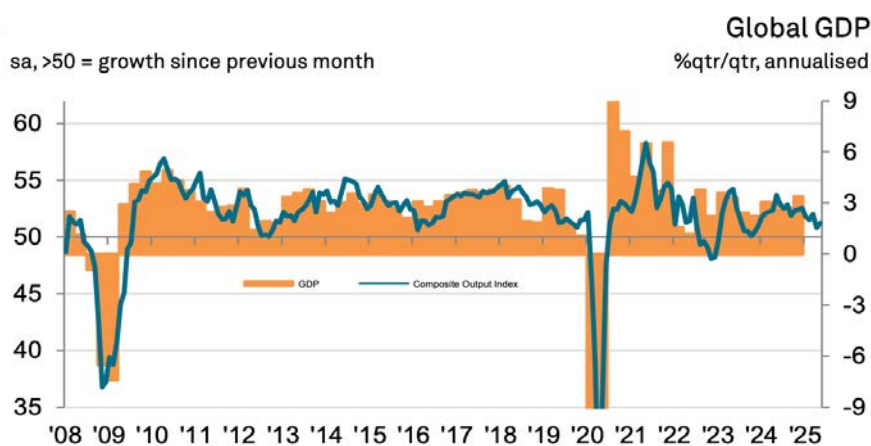
slowdown, the domestic economy appears reasonably stable, and inflationary concerns suggest that the Federal Reserve's monetary policy easing will likely be postponed in the coming months—possibly for the remainder of the year. Financial market volatility may persist as investors gauge the trajectory of inflation expectations and monetary policy adjustments.

Assuming the rollback of Trump's tariffs continues, the global economy is expected to avoid a recession and maintain a sub-par rate of expansion, as reflected in indicators such as the global composite PMI index. However, uncertainty persists. The slow progress of tariff negotiations has led to renewed frustration, with only the United Kingdom securing a formal agreement thus far, while negotiations with more than seventy countries remain unresolved. Additionally, the U.S. International Trade Court recently ruled the administration's reciprocal tariff policy unlawful, though subsequent appeals, including potential proceedings in the Supreme Court, have introduced further legal complexity.

While certain geopolitical risks have improved, intermittent disruptions continue to pose challenges. Military conflicts in various regions have escalated, exacerbating humanitarian and economic losses, and the U.S. Secretary of Defense has urged Asia-Pacific nations to substantially increase defense expenditures to enhance security measures. Rising tensions in certain global regions and strategic shifts in defense policies could further shape international diplomatic relations and economic stability.

Slow progress of tariff negotiations has led to renewed frustration.

J.P.Morgan Global Composite PMI™



Source: J.P.Morgan, S&P Global Market Intelligence

Given these conditions, the global economic environment is expected to remain fluid, with ongoing volatility in trade relations, intermittent policy shifts, and incremental bilateral agreements shaping the landscape for the foreseeable future. Policymakers and market participants will need to exercise caution and adaptability in response to evolving developments, with an emphasis on strengthening economic resilience and mitigating risks associated with prolonged uncertainties.

- Global Markets – review of month of May

Following a period of weakness in U.S. equities during March and April, the stock market saw a strong V-shaped recovery in May, led by U.S. Mega-caps and Magnificent-7 stocks. This rebound followed the rollback of Trump's tariff threats, which encouraged substantial retail buying, short-covering by hedge funds, and renewed institutional interest from previously underweight positions. Meanwhile, international equity markets maintained their strength as investors sought diversification across global markets.

At present, a mix of positive and negative factors is influencing market sentiment. On the positive side, the ongoing AI revolution in the U.S. continues to drive optimism, alongside upward revisions in global economic and corporate earnings forecasts. There is growing hope that monetary policies in the U.S. and OECD economies will remain relatively accommodative, while fiscal spending in the U.S. is expected to persist. Additionally, both Europe and China have introduced more expansionary monetary and fiscal policies to counter the negative economic effects of U.S. tariffs, potentially supporting broader economic stability.

Conversely, concerns remain regarding the sustainability of the recent rally. A substantial portion of the 20% rebound in the S&P 500 index from its April low is attributed to aggressive short-covering by hedge funds and trend-following CTAs, rather than organic, long-term buying. The question of whether the recovery represents a durable upward trend or merely a temporary surge remains open to debate.

U.S. Mega-caps led a V-shaped recovery in May.

Adding to investor uncertainty, a sizable percentage of market participants continue to assign a 25-35% probability to a potential U.S. recession or stagflation scenario within the next six to twelve months. Further, expectations for Federal Reserve rate cuts remain subdued, reinforcing concerns that monetary conditions could remain tight.

Near-term performance of various asset classes

Asset Class	US Equities	Global Equities	Global ex US Equities
Index	MSCI USA	MSCI World	MSCI World ex USD
1 month	6.45%	5.99%	4.84%
3 months	-0.29%	2.28%	9.22%
YTD	1.13%	5.18%	16.69%
FY 2024	25.08%	19.19%	5.26%

Asset Class	US Corporate	US Treasury	US Aggregate
Index	Bloomberg US Corporate	Bloomberg US Treasury	Bloomberg US Agg
1 month	-0.01%	-1.03%	-0.72%
3 months	-0.33%	-0.17%	-0.29%
YTD	2.26%	2.51%	2.45%
FY 2024	2.13%	0.58%	1.25%

Asset Class	Global Govt Bonds	Global Aggregate	Global Commodities
Index	Bloomberg Global TSY	Bloomberg Global Agg	CBR
1 month	-0.61%	-0.36%	0.57%
3 months	3.64%	3.20%	-3.78%
YTD	5.67%	5.28%	-2.12%
FY 2024	-3.58%	-1.69%	12.47%

Asset Class	GEM Equities	Asia ex Japan Equities	China Offshore
Index	MSCI EM	MSCI AC AxJ	MSCI China
1 month	4.31%	5.29%	2.76%
3 months	6.42%	6.15%	0.35%
YTD	8.89%	8.09%	13.22%
FY 2024	8.05%	12.51%	19.67%

Source: GOJI, MSCI, Bloomberg; data as of 31/5/2025

In May, the global equity universe, measured in USD, advanced by 6%, with the U.S. delivering a 6.45% return, while non-U.S. equities gained 4.84%. Year-to-date performance highlights the relative strength of global equities ex-U.S., which have risen by 16.69%, significantly outpacing the 5.18% increase in U.S. equities. A contributing factor to this divergence has been the appreciation of foreign currencies against a weaker U.S. dollar, favoring non-U.S. asset performance.

In emerging markets, equities posted a 4.31% gain, with Chinese offshore stocks rising by 2.76%, mirroring the increase in domestic A-shares. Meanwhile, U.S. Treasuries and domestic fixed income markets were

RoW outpaced U.S., partly due to weaker USD which favors non-U.S. asset.

affected by shifting investor sentiment, as recession probabilities eased and concerns over a growing budget deficit took center stage.

The U.S. dollar weakened slightly against its trade-weighted index, driven by expectations of an economic slowdown that could ultimately force the Federal Reserve to consider rate cuts later in the year. The commodities sector experienced modest gains, buoyed primarily by a recovery in oil prices.

Overall, market conditions remain dynamic, with optimism fueled by policy adjustments and technology-driven growth counterbalanced by lingering economic uncertainties and volatility in global trade relations.

Market Outlook

GOJI's Market Outlook is based on a comprehensive assessment of macroeconomic developments, corporate earnings forecasts, asset valuations, investor sentiment, capital flows, and technical chart trends. These factors collectively shape investment strategies and expectations.

The macroeconomic environment outside the U.S. is expected to remain favorable, provided Trump's tariffs do not escalate further. Within the U.S., investors are increasingly concerned about the impact of the tariff war, workforce reductions, and the decline in public sector employment, which could contribute to either a significant slowdown or a mild recession. However, optimism has improved following the rollback of Trump's tariffs, with expectations that the government will prioritize tax cuts and growth-oriented policies.

Global GDP growth is projected to remain slightly below its long-term equilibrium due to the lingering effects of trade disputes and the uncertain pace of economic recovery in Europe and China. This subdued growth outlook may justify further interest rate cuts, including potential monetary easing in the U.S. by the fourth quarter. Such measures could help sustain market-friendly liquidity conditions and support investor confidence.

**More economics
divergence between
U.S. vs RoW.**

Corporate earnings are expected to remain reasonably strong, though the potential severity of trade disruptions and a slowdown in U.S. economic activity may prompt analysts to revise earnings growth expectations downward. While companies should generally deliver solid revenue and profit growth, the broader investment universe in the U.S. and, to a lesser extent, globally, may experience earnings downgrades if macroeconomic uncertainty persists.

The U.S. bond market remains unsettled due to a combination of technical and structural factors. Investors should consider purchasing U.S. bonds only when risk premiums increase sufficiently to compensate buyers, ideally around a 5% per annum yield. In contrast, non-U.S. bond markets have already seen substantial declines in long-term yields, limiting their attractiveness unless recessionary conditions emerge. As such, non-U.S. fixed-income markets offer diminished value under present circumstances.

Equity valuations in the U.S. continue to climb, with the S&P 500 forward price-to-earnings ratio reaching 21.5–22 times earnings, signaling increasingly expensive valuations. For U.S. equities to maintain strong performance, leading companies—particularly the Magnificent-7 and other high-growth stocks—must meet aggressive sales and earnings targets. Additionally, the 10-year Treasury Bond yield must remain below 4.50% per annum to sustain investor optimism.

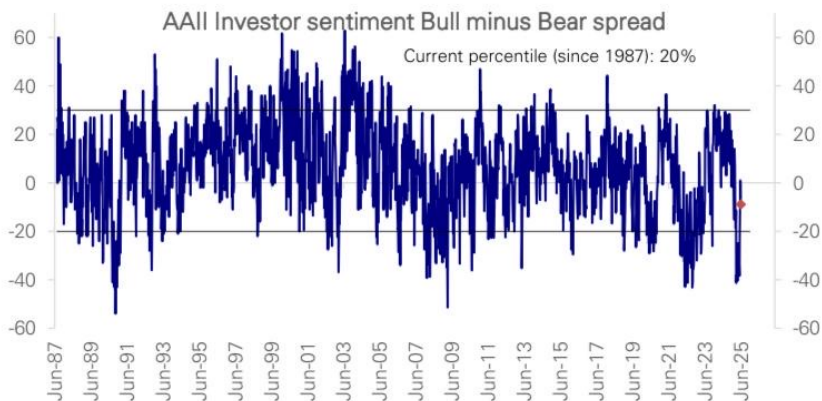
The latest data on equity positioning in early June suggests that Systematic investors remain slightly underweight, while Discretionary managers have increased their holdings, shifting to a neutral stance. This reflects a cautious but engaged market approach, with investment strategies adapting to ongoing economic uncertainties.

Overall, while global markets present opportunities, careful attention to macroeconomic indicators, corporate earnings trends, and monetary policy decisions will be essential in navigating potential risks and maintaining portfolio resilience.

Investors maintain a cautious approach.

In the month, traders and investors' sentiment rose, boosted by the tariff roll-back and good results from NVDA and others.

Investor bull minus bear spread



Data as of 28/5/2025

Source: Barron's, Haver Analytics, Deutsche Bank Asset Allocation

The CNN Fear & Greed Index oscillated in the month between Neutral and Greed.

Fear & Greed Index

- What emotion is driving the market now?



Source: CNN Business

Last update June 1 at 8:00:00 PM ET

Short-term Technical Analysis

A review of U.S. and global technical charts indicates that the Dow Jones Industrials and S&P 500 continue to exhibit a long-term bullish trend, reinforced by the Golden Cross formation established in October-November 2023. While both indices briefly dipped below the 200-day moving average (DMA), they

have since regained upward momentum. Notably, the S&P 500 and Nasdaq have recently surpassed this key technical threshold, signaling renewed strength in market sentiment and potential continuation of the broader uptrend.

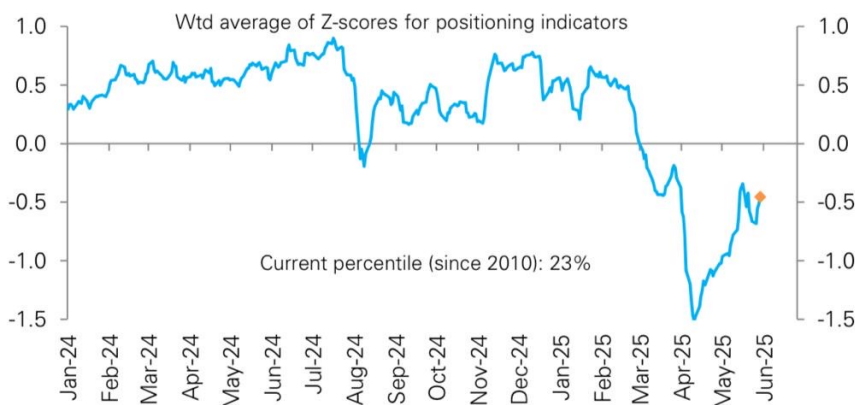
S&P 500 Stock Price Index



Source: MarketWatch.com

The latest Positioning chart shows that Discretionary and Systematics investors have been adding to their equity exposure following Trump's tariff backdown. Discretionary investors have bought enough to put them in the neutral to overweight zone. While Systematics also bought, they are still underweighted.

Consolidated Equity Positioning



*Weights based on explanatory power in regression of equity performance on indicators

Source: Deutsche Bank Asset Allocation

The Way We See It

- Global Markets and Investment Thematics

At GOJI, we advocate a two-pronged strategy to invest in risk assets.

While our shorter-term tactical (3-6 months) and long-term strategic (1-2 years) views may differ substantially, since the end of November 2024, we have been advocating a risk-adjusted stance towards equities. Give the relatively significant correction in U.S. equities in early April, we took the opportunity to upgrade this asset class again. As it has risen by over 20% in a short period of time, we are recommending to take profit and stay neutral for now.

Long-Term Risk-Neutral Strategy Rationale

Despite the uncertainties and disruptions caused by Trump's shifting tariff policies, we believe that both fundamental and quantitative investors have already adjusted their strategies accordingly. Market participants have factored in these risks, positioned themselves appropriately, and demonstrated a willingness to invest in the best-case scenario—one that favors pro-growth, pro-equities, and pro-crypto policies under Trump's second term.

Given this backdrop, our long-term strategy maintains a neutral stance on risk assets, while recommending a modest underweight in high-priced, volatile growth assets. In contrast, we continue to advocate for an overweight allocation to cash and stable, high-quality assets, ensuring a balanced approach amid ongoing policy uncertainties.

Positive tactical positioning in early April turning Neutral now:

The U.S. stock market has rebounded significantly from its early April lows, with the S&P 500 surging over 20% since April 8, when concerns over Trump's tariff policies triggered a sharp decline. Given this strong rebound, we have decided to take profit and go back to neutral.

Our TAA view remains unchanged: take profit and stay neutral for now.

Postscripts

This month, we wish to include two Special Sections. The first one deals with the possibility of a bizarre scenario in which the private sector can fall in a mild recession, whereas the public sector continues to grow, despite DOGE.

The second is a tongue in cheek parody of how a politically-charged Trump 2.0 could result in the differentiation of future winners and losers amongst the Magnificent 7 mega-caps.

1. Private Sector Recession vs Public Sector Growth ?

Possible scenario?

Yes, it is.

Trump's tariff and his Administration's other new radical policies have caused increasing uncertainties in the mind of households and companies.

These have negatively impacted firstly on the consumer's psyche when it comes to buying consumer durables; and, secondly, on the decision by owners of businesses to invest in new equipment or hiring new staff.

A recent survey of American CEOs conducted by the Conference Board shows that 89% are concerned about the prospects of an onset of a U.S. recession within the next 6-12 month period. That is indeed a very high level of pessimism amongst the captains of all types of industries in the US. Based on past history, this has actually tended to lead to very slow growth phases or a recession.

Additionally, this deteriorating trend is quite clearly illustrated in the latest employment data announced in this past week. The private sector appeared to have hired much less, whereas the public sector, on the other hand, in spite of DOGE, is hiring more.

Once the stock market realises this, it probably will not like it very much.

Recession & Growth at the same time - an oxymoronic scenario

While the complacent bulls are rejoicing the picture of the S&P 500 surpassing the 6000 level on Friday, June 6th, they could be close to dancing their last song?

2. How "magnificent" are the U.S. Mag-7 Tech stocks?

Let's see who are the illustrious members of the Mag 7 currently are:

- in the \$3 trillion market cap category, Microsoft, Apple and NVIDIA claim the top spot;
- followed by Alphabet and Netflix, around \$2 trillion each;
- then META and TESLA, stand above the 1 trillion mark.

Based on a simple average method of calculation, the Mag-7's 12-month forward P/E multiple is estimated to be around 37X. Their forecast EPS growth is estimated to be around 32% (or 23% excluding NVIDIA).

The market believes that, despite their elevated valuation, as long as they deliver the projected super-high EPS growth, the 72% premium to the S&P 500 P/E of 21.5X can be justified.

Can they?

Apple has been out of favour year-to-date, as President Trump sees CEO Tim Cook not attempting hard enough to bring all Apple manufacturing facilities back to the U.S.. Politics aside, Apple has not been bringing the good old "wow" at the annual WWDC. Many iPhone users are still holding on to the older models.

Tesla's share price has tumbled. The recent spat between Elon Musk and Trump showed how vulnerable expensively-valued stocks are to changes in political favours under the Trump Administration. Last week, 5/6/2025, Tesla's share price fell by 18% intra-day, when the spat between the two men (or kids!?), associated with high egos, splashed on the social and financial media.

On the other hand, the CEO of NVIDIA, Jensen Huang, is currently very much in favour with Trump, following him to do deals in the Middle East. Hence its share price has risen, both in absolute and relative terms.

Looking at the AI & cloud computing race, Microsoft has been playing catch-up, with Azure outpacing Google's AWS in YTD growth. Market expects Azure margins to be no worse than that of AWS.

Consumers might be watching all these developments while enjoying entertainment streaming, of which Netflix maintains a dominant market position.

In the original 1954 Seven Samurai film, and the 1960 Hollywood Western remake, only 3 out the 7 survived. If one has to hazard a guess as to which will triumphant in the end, it appears that NVIDIA, Microsoft and Netflix will.

Well, nothing is certain in today's world, especially with Trump in power. Hence your guess would be as good (and wild) as ours!

p.s. This #2 section is really just for fun 😊

Our wild guess of the winners among Mag-7 in the foreseeable future.

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