The Way We See It

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INSIDE THIS ISSUE

From April's despair to June exuberance: Will markets be smoother in H2?

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

Recent data shows the U.S. economy grew at an annualised rate of 2.5% in Q2 2025, a downward revision from the initial 3.8% estimate. Consumer demand remains positive but is slowing, weighed down by ongoing uncertainty around trade policy, DOGE, immigration reform, and high interest rates. The unpredictable nature of Trump-era tariffs—both in direction and intensity—alongside broader political instability, has made businesses more cautious about investment.

A majority of U.S. corporate executives and economists from major global financial institutions now see a greater than 50% chance of a U.S. recession in 2025–26. Still, GOJI's base case anticipates a soft landing, with growth stabilising at low levels rather than slipping into a deeper downturn.

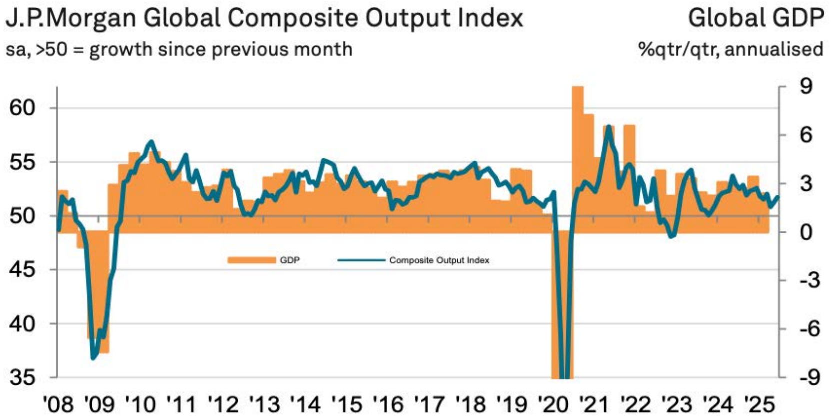
Growth across major economies continues to moderate. After a modest expansion in Q1, Germany is expected to outperform its European peers. Japan's slight contraction earlier this year may be offset by significant wage hikes, which could lift domestic consumption, though exports remain a drag. China is poised to play a central role in global growth, supported by government efforts to stabilise the property sector, a rebound in AI-driven private investment, and fiscal measures aimed at boosting consumer demand. A more conciliatory stance towards large private firms is also expected to aid recovery.

Despite a partial rollback of U.S.-China tariffs following negotiations in Switzerland, China's export sector remains under strain. Weak global demand and the continued shift of manufacturing to other regions are likely to dampen trade. Geopolitical tensions further complicate the outlook, prompting companies to rethink long-term strategies.

Inflation is easing across Europe and other OECD countries, with both headline and core measures declining—supporting expectations for further rate cuts. In the U.S., core inflation has slowed but remains above 2.5%, with tariffs on imports posing a risk of renewed price pressures. The domestic economy remains relatively stable, but inflation concerns suggest the Federal Reserve may delay any rate cuts, potentially through year-end. Financial markets are likely to stay volatile as investors monitor inflation trends and central bank responses.

Inflation concerns in U.S. may delay Fed's rate cuts.

J.P.Morgan Global Composite PMI™



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

If the rollback of Trump-era tariffs continues, the global economy may avoid recession and maintain modest growth, as suggested by the global composite PMI. However, uncertainty lingers. Progress on tariff negotiations has been slow, with only a few of over 70 countries reaching formal agreements.

Some geopolitical risks have eased—such as the ceasefire between Iran and Israel—but sporadic disruptions persist. Escalating military conflicts in other regions are worsening humanitarian and economic conditions. The U.S. Secretary of Defense has called on Asia-Pacific nations to significantly boost defence spending, a move that could reshape diplomatic dynamics and economic priorities.

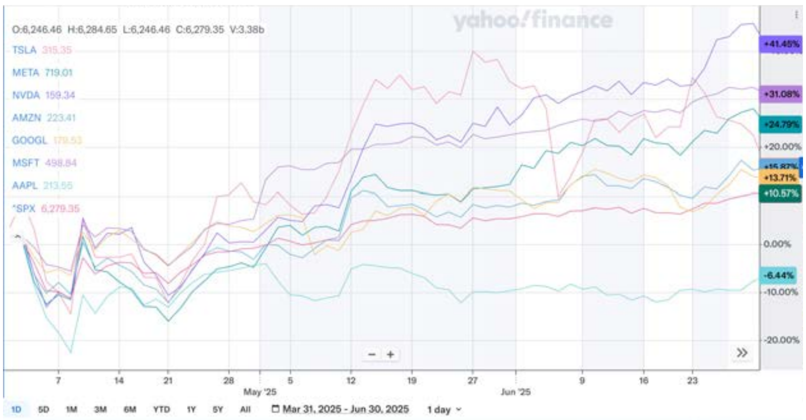
The global economic outlook remains fluid, shaped by shifting trade policies, geopolitical developments, and the pace of bilateral agreements. Policymakers and investors alike will need to remain agile in navigating this evolving landscape.

- Global Markets – review of June quarter

The stock market's strong V-shaped recovery in April and May—driven by U.S. mega-cap and "Magnificent Seven" stocks—extended into June, resulting in a robust quarterly performance.

V-shaped recovery led by mega-cap in April and May, continued in June.

Mag-7 vs SPX : Q2 2025



Source: Yahoo Finance

International equity markets outside the U.S. also held firm, buoyed by expansionary fiscal and monetary policies and investors' desire for diversification, particularly amid the weakening U.S. dollar.

Currently, market sentiment is shaped by a blend of positive and negative influences. On the positive side, the ongoing AI revolution in the U.S. continues to fuel optimism, supported by upward revisions to global economic and corporate earnings forecasts. There is increasing confidence that monetary policy in the U.S. and other OECD economies will remain relatively accommodative, while fiscal spending in the U.S. and abroad is expected to persist. Moreover, both Europe and China have introduced more expansionary monetary and fiscal measures to mitigate the adverse economic effects of U.S. tariffs, potentially contributing to broader economic stability.

Is the recent rally sustainable? Doubts persist.

On the other hand, doubts persist regarding the sustainability of the recent rally. A significant portion of the S&P 500's 20% rebound from its April low is attributed to aggressive short-covering by hedge funds and trend-following CTAs, rather than sustained, long-term investment. Whether this recovery signals a lasting upward trend or a temporary surge remains uncertain. Investor caution is further heightened by the fact that a large share of market participants continue to assign a probability greater than 50% to a potential U.S. recession or stagflation scenario within

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	5.14%	4.35%	2.37%
3 months	11.36%	11.63%	12.33%
YTD	6.33%	9.75%	19.46%
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	1.87%	1.25%	1.54%
3 months	1.82%	0.85%	1.21%
YTD	4.17%	3.79%	4.02%
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	1.77%	1.90%	2.36%
3 months	4.83%	4.52%	-3.89%
YTD	7.54%	7.27%	0.19%
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	6.14%	6.20%	3.75%
3 months	12.20%	12.66%	2.08%
YTD	15.57%	14.79%	17.46%
FY 2024	8.05%	12.51%	19.67%

Source: GOJI, MSCI, Bloomberg; data as of 30/6/2025 the next six to twelve months. Additionally, expectations for Federal Reserve rate cuts remain muted, reinforcing concerns that U.S. monetary conditions may stay restrictive.

During the June quarter, global equities (measured in USD) rose by 11.6%, with U.S. stocks returning 11.4% and non-U.S. equities gaining 12.3%. Year-to-date figures highlight the relative strength of global equities excluding the U.S., which have climbed 19.4%, significantly outpacing the 6.3% rise in U.S. equities. This divergence has been partly driven by the appreciation of foreign currencies against a weakening U.S. dollar, which has favoured non-U.S. asset performance.

YTD non-U.S. equities outpaced U.S., which attributed to the USD weakening.

In emerging markets, equities delivered a solid 12.2% gain in USD terms for the quarter, led by non-Chinese markets, as Chinese offshore stocks posted only a modest 2.1% increase.

Meanwhile, U.S. Treasury bonds returned a modest 0.9%, while global bonds advanced by a stronger 4.8% in USD terms—a figure flattered by the weaker dollar over the quarter.

The U.S. dollar continued to decline against its trade-weighted index, driven by expectations of an economic slowdown that could eventually prompt the Federal Reserve to consider rate cuts later in the year. The commodities sector experienced modest losses, largely due to falling oil prices.

U.S. Dollar Index : Q2 2025

Source: TradingView

Overall, market conditions remain fluid, with optimism driven by policy shifts and technology-led growth tempered by ongoing economic uncertainties and volatility in global trade dynamics.

Market Outlook of H2 2025

GOJI's Market Outlook in the 2nd half is modestly constructive, but not as bullish as that painted by the consensus.

GOJI: H2 not as bullish as consensus.

As outlined in previous reports, GOJI's investment approach is grounded in a comprehensive evaluation of macroeconomic trends, corporate earnings forecasts, asset valuations, investor sentiment, capital flows, and technical chart patterns. These elements collectively inform strategic positioning and expectations.

The macroeconomic backdrop outside the U.S. is expected to remain supportive, assuming no further escalation in Trump's tariff measures. Within the U.S., however, investor concerns are mounting over the implications of the ongoing tariff conflict, workforce reductions linked to DOGE, stricter immigration enforcement, and emerging negative employment trends in the private sector. These factors could lead to either a pronounced slowdown or a mild recession within the next 6 to 12 months. Nonetheless, short-term sentiment has improved following the partial rollback of Trump's tariffs, alongside expectations that the administration will prioritise tax cuts through the proposed "Big and Beautiful Bill".

Global GDP growth is forecast to remain slightly below its long-term trend, reflecting the residual impact of trade tensions and the uncertain recovery trajectory in Europe and China. This subdued outlook may warrant further interest rate reductions, including potential monetary easing by the U.S. Federal Reserve in the fourth quarter. Such actions could help preserve liquidity conditions conducive to market stability and investor confidence.

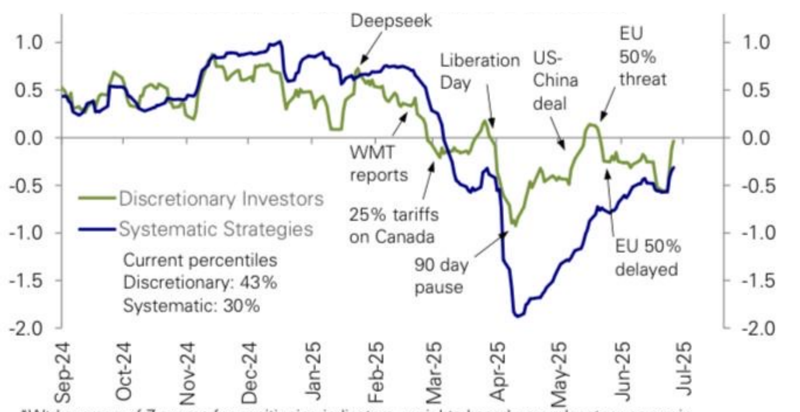
Corporate earnings are projected to remain relatively robust, although the extent of trade-related disruptions and a potential deceleration in U.S. economic activity may prompt downward revisions to earnings forecasts. While many firms are likely to report solid revenue and profit growth, the broader investment landscape—particularly in the U.S., and to a lesser extent globally—could face earnings downgrades if macroeconomic uncertainty persists.

The U.S. bond market remains unsettled due to a mix of technical and structural pressures. Investors are advised to consider U.S. bonds only when risk premiums rise sufficiently to offer adequate compensation—ideally at yields around 5% per annum. In contrast, non-U.S. bond markets have already experienced significant declines in long-term yields, reducing their appeal unless recessionary conditions materialise. As a result, current valuations in non-U.S. fixed-income markets offer limited value.

U.S. equity valuations continue to rise, with the S&P 500's forward price-to-earnings ratio reaching 22–23 times, indicating a relatively expensive level. For U.S. equities to sustain their momentum, leading firms—particularly the Magnificent Seven and other high-growth names—must deliver on ambitious sales and earnings expectations. Furthermore, the 10-year Treasury bond yield must remain below 4.50% per annum to support continued investor optimism.

Recent data on equity positioning as of early July indicates that systematic investors have been net

Discretionary vs Systematic Equity Positioning



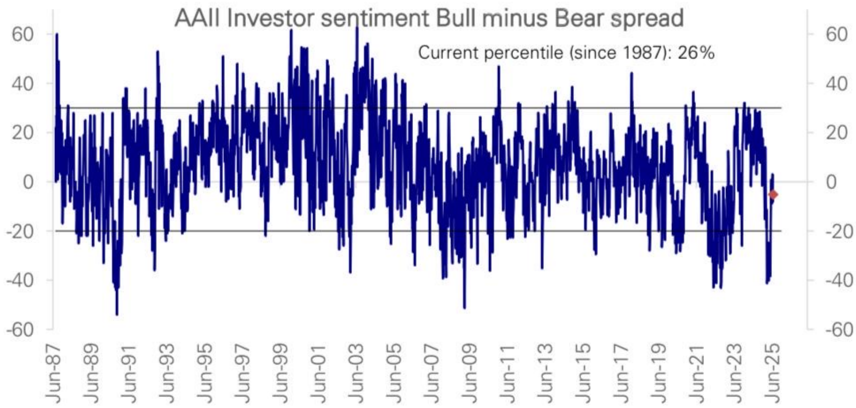
*Wtd average of Z-scores for positioning indicators, weights based on explanatory power in regression of equity performance on indicators

Source: Deutsche Bank Asset Allocation

buyers, though they remain slightly underweight. Discretionary managers have also increased exposure, bringing their positioning to a neutral level.

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

Investor bull minus bear spread

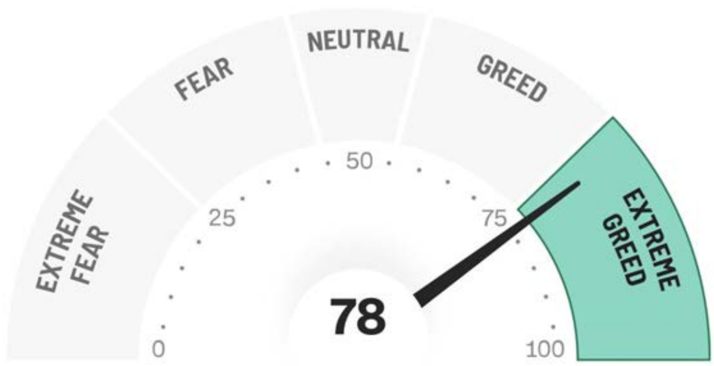


Data as of 25/6/2025
Source: Barron's, Haver Analytics, Deutsche Bank Asset Allocation

The CNN Fear & Greed Index currently sits in the Greed zone. This is in sharp contrast to the Extreme Fear sentiment in March and April, when Trump's tariff announcements were in their worst phase.

Sentiment has swung from Extreme Fear to Greed/Extreme Greed in only 3 months.

Fear & Greed Index
- What emotion is driving the market now?



Source: CNN Business
Last update July 1 at 8:00:00 PM ET

Short-term Technical Analysis

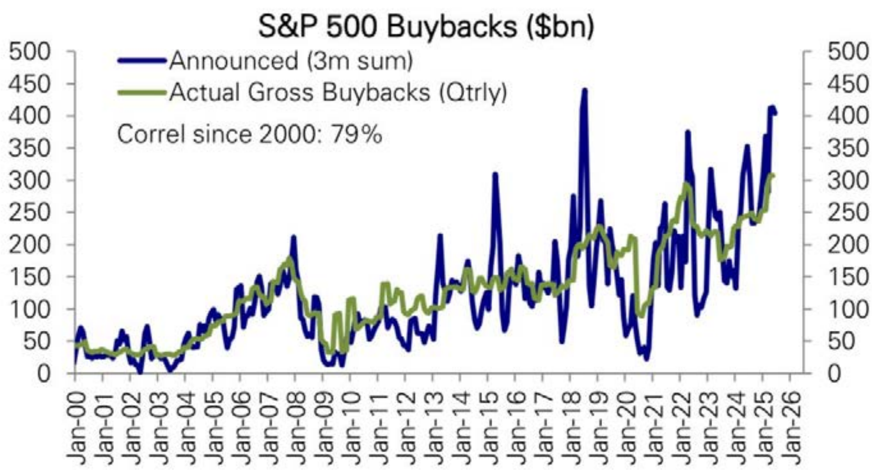
A review of U.S. and global technical charts indicates that the Dow Jones Industrials and S&P 500 continue to exhibit a long-term bullish trend, reinforced by the Golden Cross formation established in October-November 2023.

S&P 500 Stock Price Index

Source: MarketWatch.com

While both indices briefly dipped below the 200-day moving average (DMA), they have since regained upward momentum and now are about to cross upwards. 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. Corporate share buybacks have been a strong and consistent buying force of U.S. stocks.

S&P 500 announced and actual buybacks



Source: Bloomberg Finance LP, Deutsche Bank Asset Allocation

Corporate share buybacks have been a strong buying force.

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 slightly underweighted.

Consolidated Equity Positioning

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. Given the relatively significant correction in U.S. equities in early April, we took the opportunity to upgrade this asset class again.

Our TAA view remains unchanged: 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.

Neutral tactical positioning now turning moderately positive in the September quarter

While we are fully aware and acknowledge the expensive valuation of the U.S. stock market, in the short term (i.e. next few months), we feel that the rally is likely to continue. This is based on potential further buying by both Systematics and, to a lesser extent, Discretionary investors. Furthermore, corporate earnings revisions are still being revised upwards, as well as the intensity of Trump's tariffs has been declining.

As this tactical call is not based on our belief that US economic and corporate earnings will exhibit much better fundamental changes, we would only suggest this strategy to those who can trade in and out quickly.

Postscripts

This month in the Special Section, we look at some possible show-stoppers in the second half of the year.

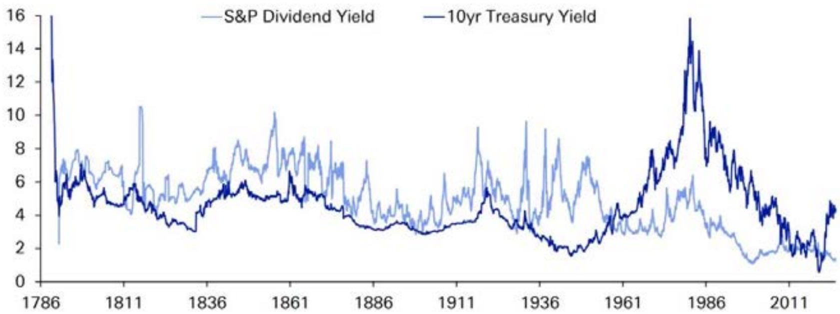
What could stop the strong bull market in H2?

In our opinion, the trend of the 10-year and 30-year Treasury bond yields is undoubtedly the most important risk factor which can break the FOMO bull market. Recently, the U.S. 10-year bond yield has risen by 20bps from 4.20% to 4.40% pa. Investors are watching to see whether it would break above 4.50% p.a. and heading towards 4.75-5% p.a.

Given that the S&P 500 index is currently trading at a forward P/E of 22.5X and a low dividend yield of 1.25% p.a., the above higher bond yield scenario could cause a substantial switch from stocks to bonds. This means potential large downside risks to stocks.

We include a long-term chart from Deutsche Bank showing the widening discrepancy of U.S. bond vs dividend yield:

S&P 500 dividend yields vs 10-year U.S. Treasury yields



Source: Finaeon, Deutsche Bank

Keep a close eye on UST yields.

Secondly, fixed income investors are currently pricing in 2 rate cuts by the Fed by the end of year. Should tariff- and tax-cuts-induced inflationary pressures start to rise again, and that employment remains full, investors may be disappointed.

Thirdly, Trump's tariff policy remains highly uncertain and prone to change anytime. This is unlikely to encourage multinational or large corporations to invest a high amount of long-term capital spending in manufacturing in the U.S. or other countries around the world. This is unlikely to contribute to lower consumer prices and high CAPEX spending.

Fourthly, as stock valuations have become more expensive, long term fundamental investors are unlikely to buy a lot more at current levels. This means that fast money and algo-based traders, who have been the main buyers over the past few weeks, are and will likely dominate the trend of hot stocks and sectors in the short-term. This could mean more volatile times ahead.

In brief, while the momentum in stock markets remains strong in the short-term, it is GOJI's firm belief that we are entering a more risky, i.e. less fundamentally favourable period. We thus recommend overweighted investors in stocks to exercise strict discipline to lock in profits at appropriate levels and to avoid large drawdowns.

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