

Market & Strategy Update

Q3 2025



Executive summary



Economy

US trade policy rocked global confidence in Q2, triggering growth concerns on the back of slumping business and consumer sentiment. Following Trump's abrupt pivot, the consensus expects a benign tariff outcome. US economic growth has so far been resilient, possibly due to demand frontloading. Minor cracks have started to emerge, but a recession is unlikely with deficit reduction likely off the table. EU, fiscal spending and supportive credit growth continue to point towards reflation. In China, incremental monetary and fiscal policy support keep the economy on a moderate upward trajectory. Falling inflation has allowed central banks to cut rates, except at the Fed, which remain on hold. Going forward, several factors point to a possible reacceleration of inflation.



Currencies

The USD has remained under significant pressure. Countertrend rallies triggered by the bearish consensus are possible and should be faded. The USD remains richly valued and many factors point to a durable downtrend.



Equities

Global equities have roundtripped in Q2, as Trump's turnaround on trade and fiscal policy reduced the odds of a recession. Investors are now expecting a benign outcome on trade, which increases downside risks in Q3 given the unpredictable US administration. This is particularly relevant for US equities, where valuations and EPS estimates remain high. Despite a strong tech stock recovery, other sectors keep leading, and US equities remain laggards. This dynamic should continue, as global investors reduce their allocations to US assets. The environment of stable yields, a weak USD and low energy prices is supportive of risk assets, and a correction during summer would constitute a buying opportunity, particularly outside of the US, assuming no major trade or fiscal changes.



Commodities

Commodities have been a mixed bag in Q2, with energy prices whipsawing between supply increases and geopolitical tensions. Other commodities have fared better. With trade disruptions, geopolitical tensions and sticky inflation a possibility, tactical exposure to commodities is appropriate.



Bonds

Decelerating inflation and growth concerns have kept a lid on yields, overwhelming worries around debt refinancing. In the US, early signs of a growth soft patch could extend downward pressure on yields in the short-term, but with fiscal rectitude off the table and large refinancing needs seeing declining foreign interest, extending duration remains unattractive beyond 3-4 years. In the EU, large fiscal spending and odds of continued reflation should push long-term yields higher. Credit spreads have come back down to levels that make excessive credit risk unwise. The weak dollar environment is particularly favorable to emerging market debt, as local currencies see appreciating pressure and central banks have room to cut rates from the current elevated levels.



Precious metals

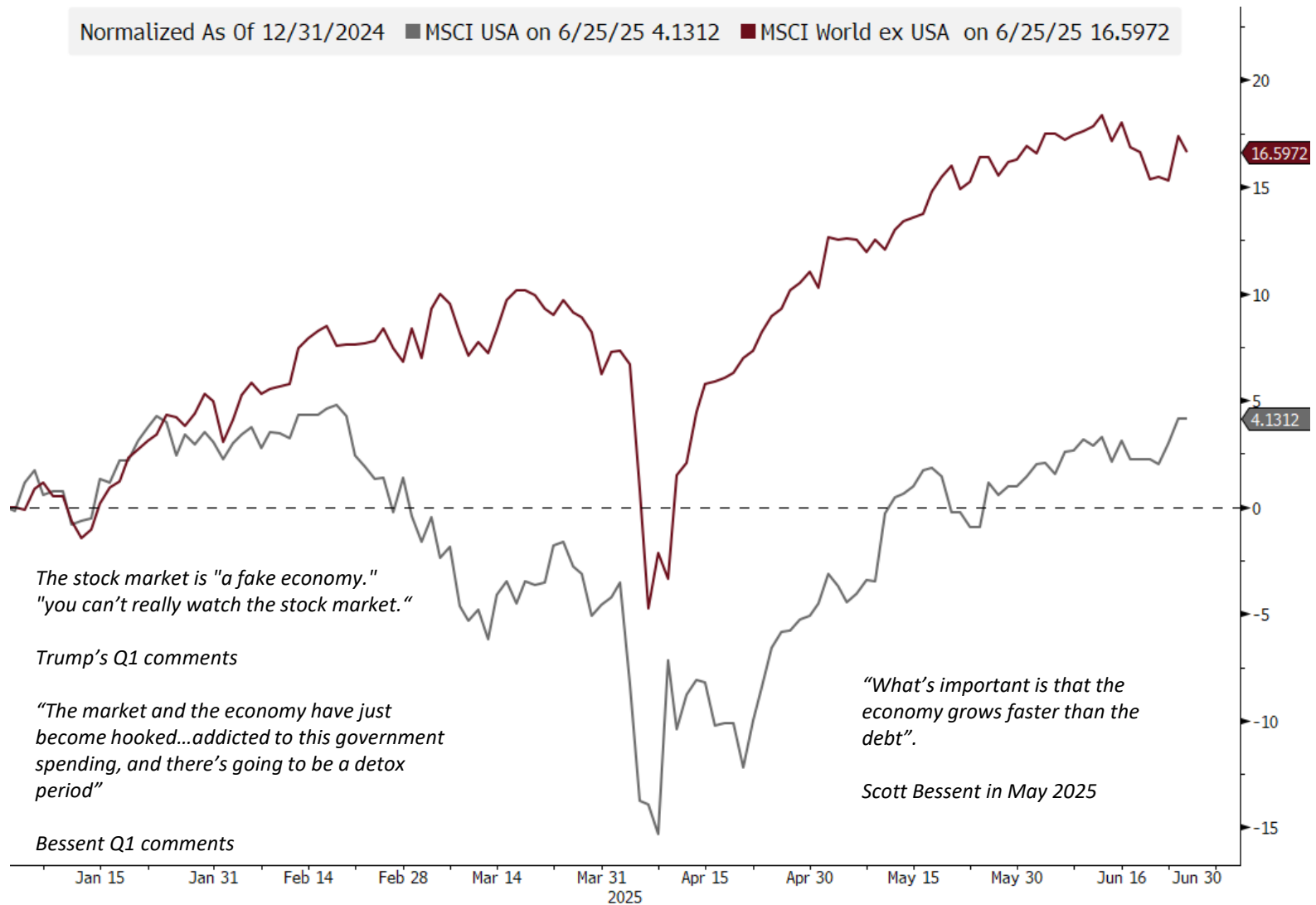
Gold remains in a major bull market, driven by central bank purchases. Western investor interest has picked up but remains muted and not indicative of a top. Pullbacks should be bought. Other precious metals are also showing signs of strength.

Market & strategy update



A big shift in the US administration messaging during Q2

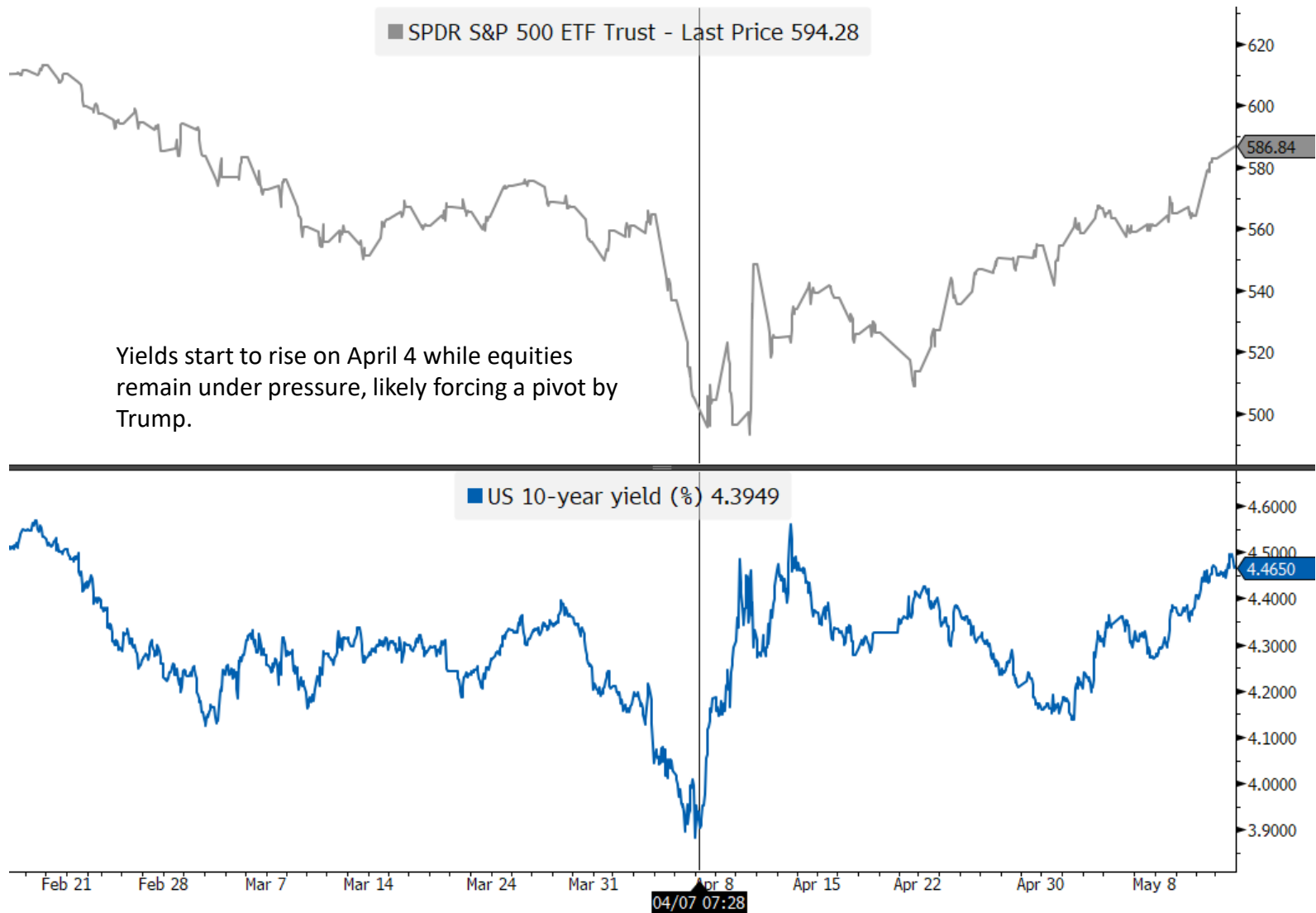
Normalized As Of 12/31/2024 ■ MSCI USA on 6/25/25 4.1312 ■ MSCI World ex USA on 6/25/25 16.5972



NDDUUS Index (MSCI USA Net Total Return USD Index) Asset class returns YTD Daily 31DEC2024-26JUN2025 Copyright© 2025 Bloomberg Finance L.P. 26-Jun-2025 12:11:29



The origin of the TACO trade was not about equities



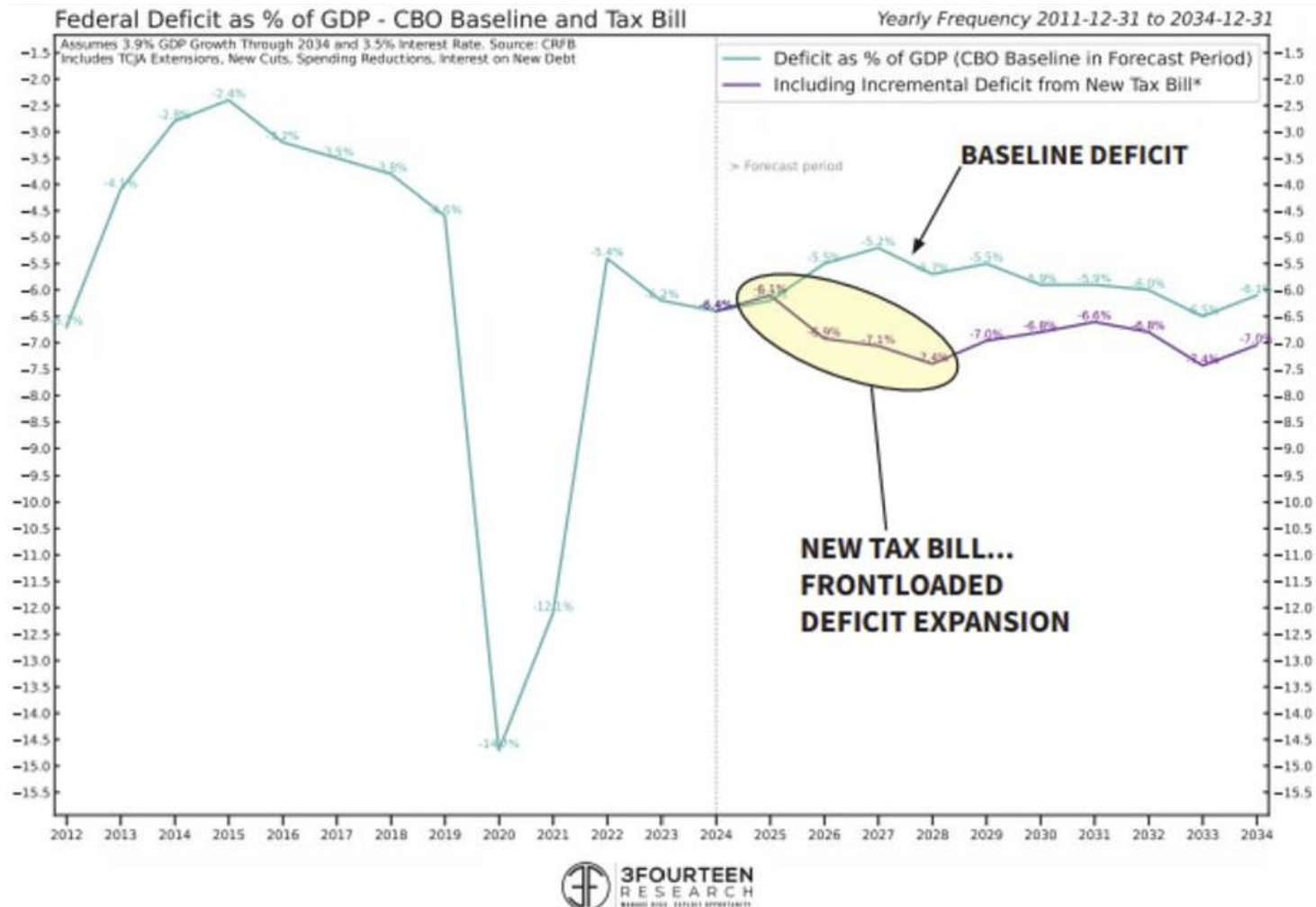
SPY US Equity (SPDR S&P 500 ETF Trust) SPY & 10Y 90 Days 60 Minutes

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From promising to cut the deficit to passing the Big Beautiful Bill, which could even expand the deficit in the first few years...

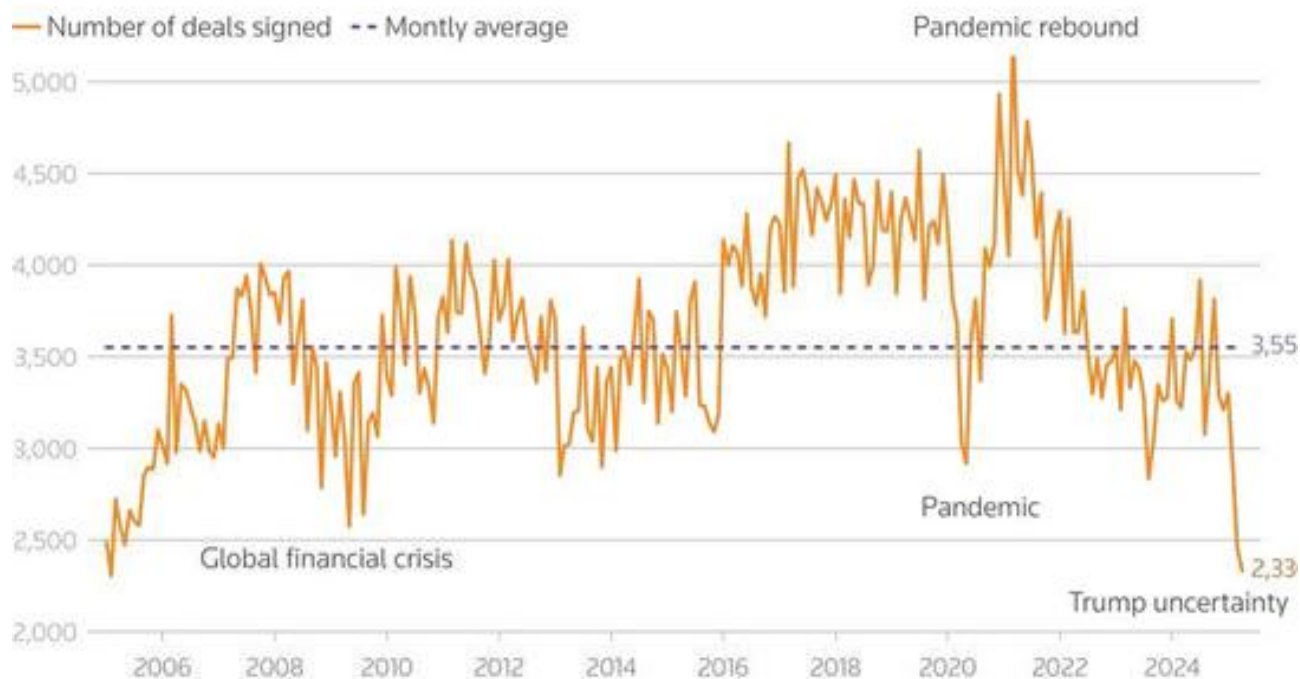




The uncertainty around trade policy froze business decisions

Deal signing falls to 20-year low, worse than during the global financial crisis

The number of deals inked globally fell to their lowest in April since February 2005

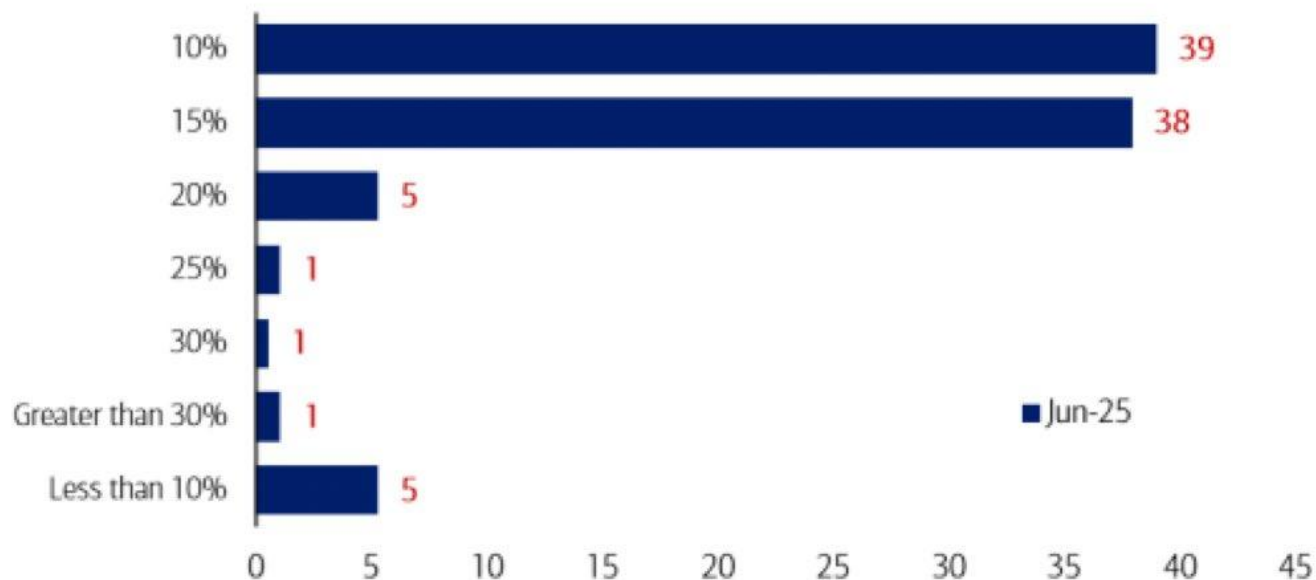




Trump's turn-around has led to a consensus that the tariff outcome will be benign relative to initial fears...

Chart 7: The average US tariff rate expected at 13%

What do you think will be the final tariff rate that the US imposes on the Rest of World?



Source: BofA Global Fund Manager Survey, Bloomberg

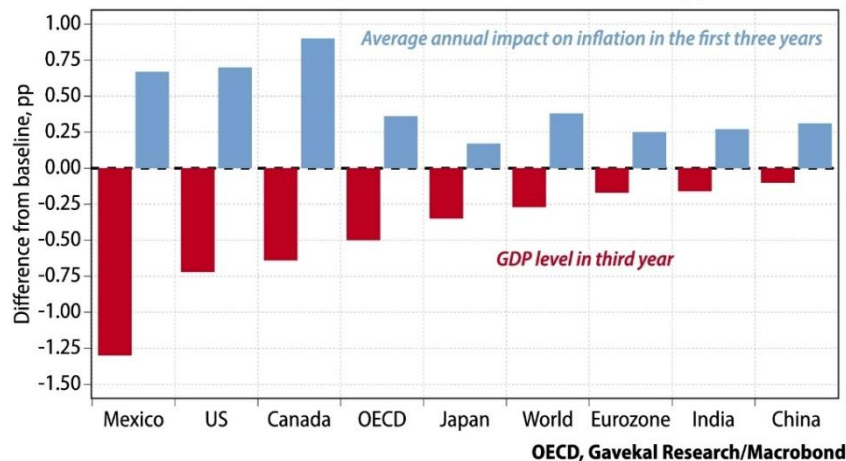
BofA GLOBAL RESEARCH



Tariffs are still estimated to hit the US harder than other major economies...particularly the lower income spectrum

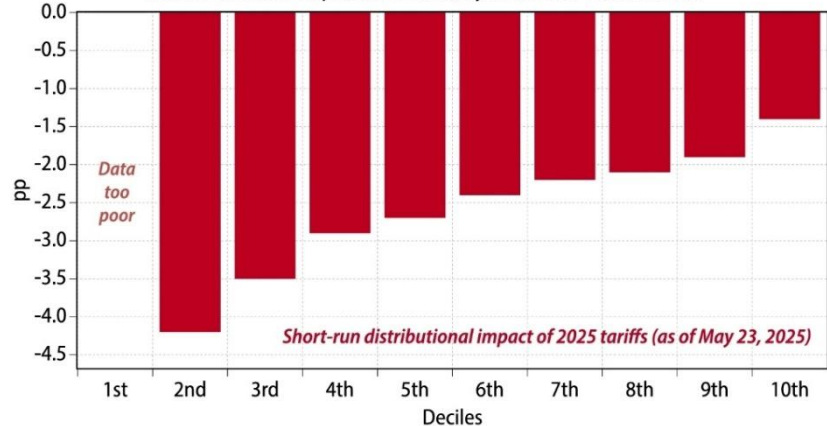
The trade war will hurt the US more than China or Europe

OECD simulation of 10% bilateral tariffs between the US and its trading partners



The impact of tariffs will fall disproportionately on poorer US households

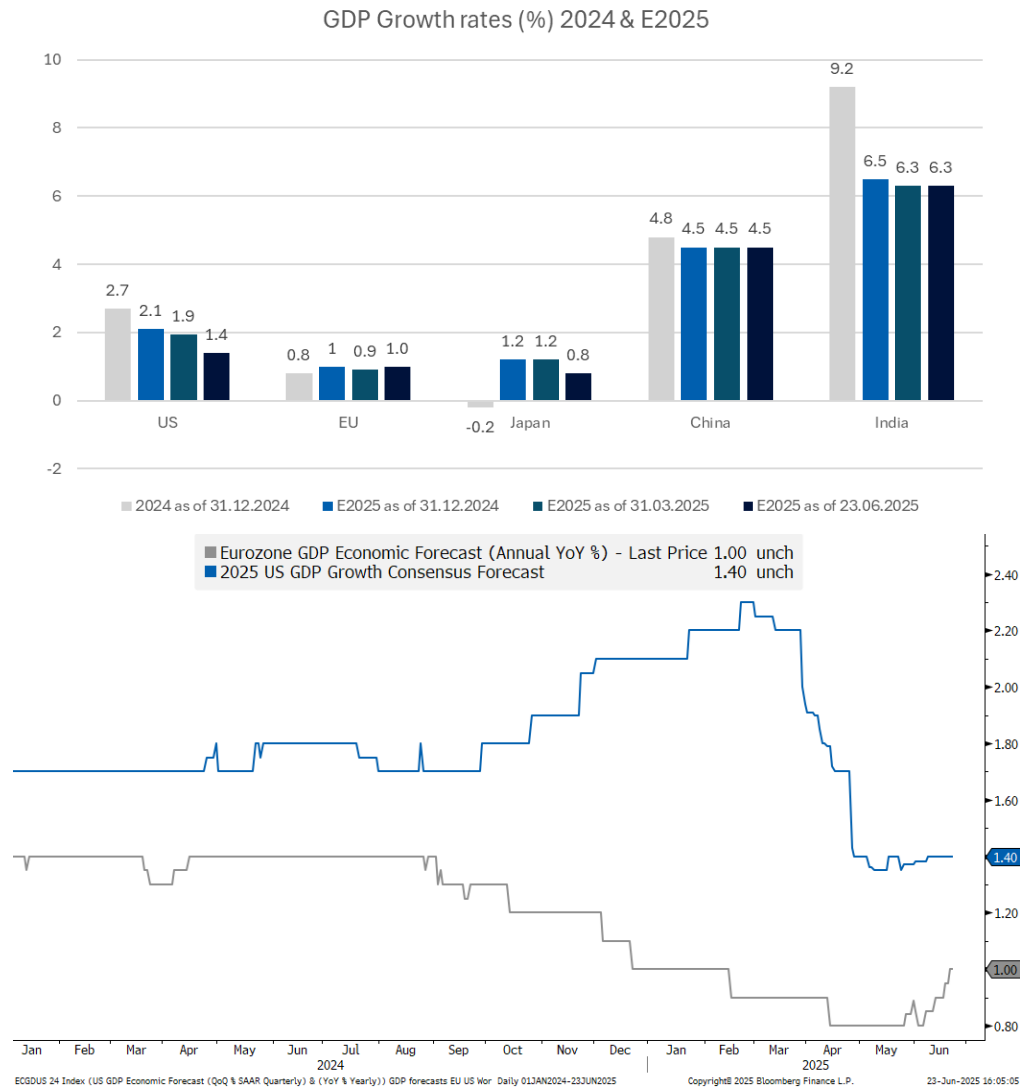
Effect of tariffs on disposable income, by household income decile



Yale Budget Lab, Gavekal Research/Macrobond

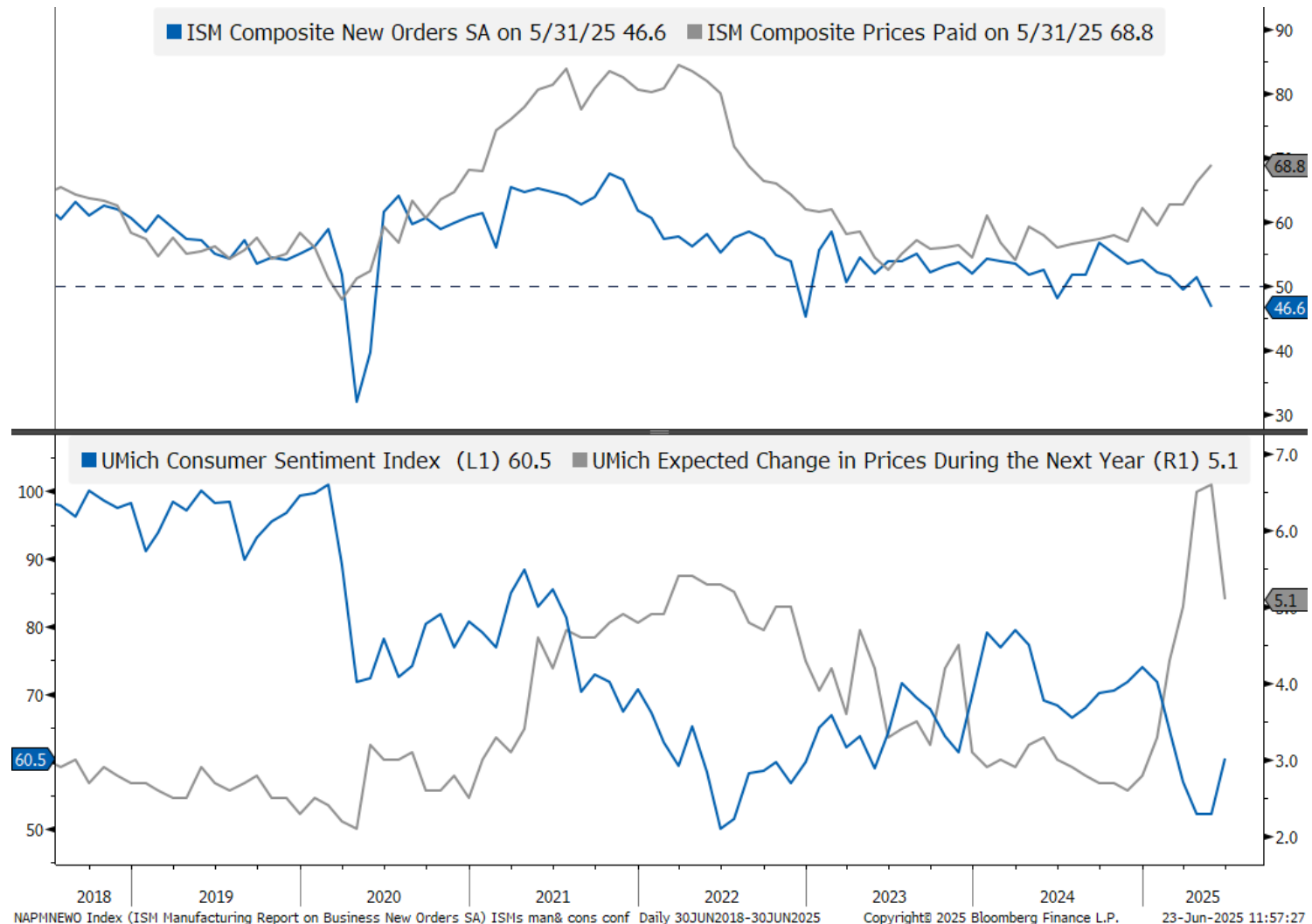


US growth estimates have been sharply revised down in Q2. In the EU, expectations have modestly improved



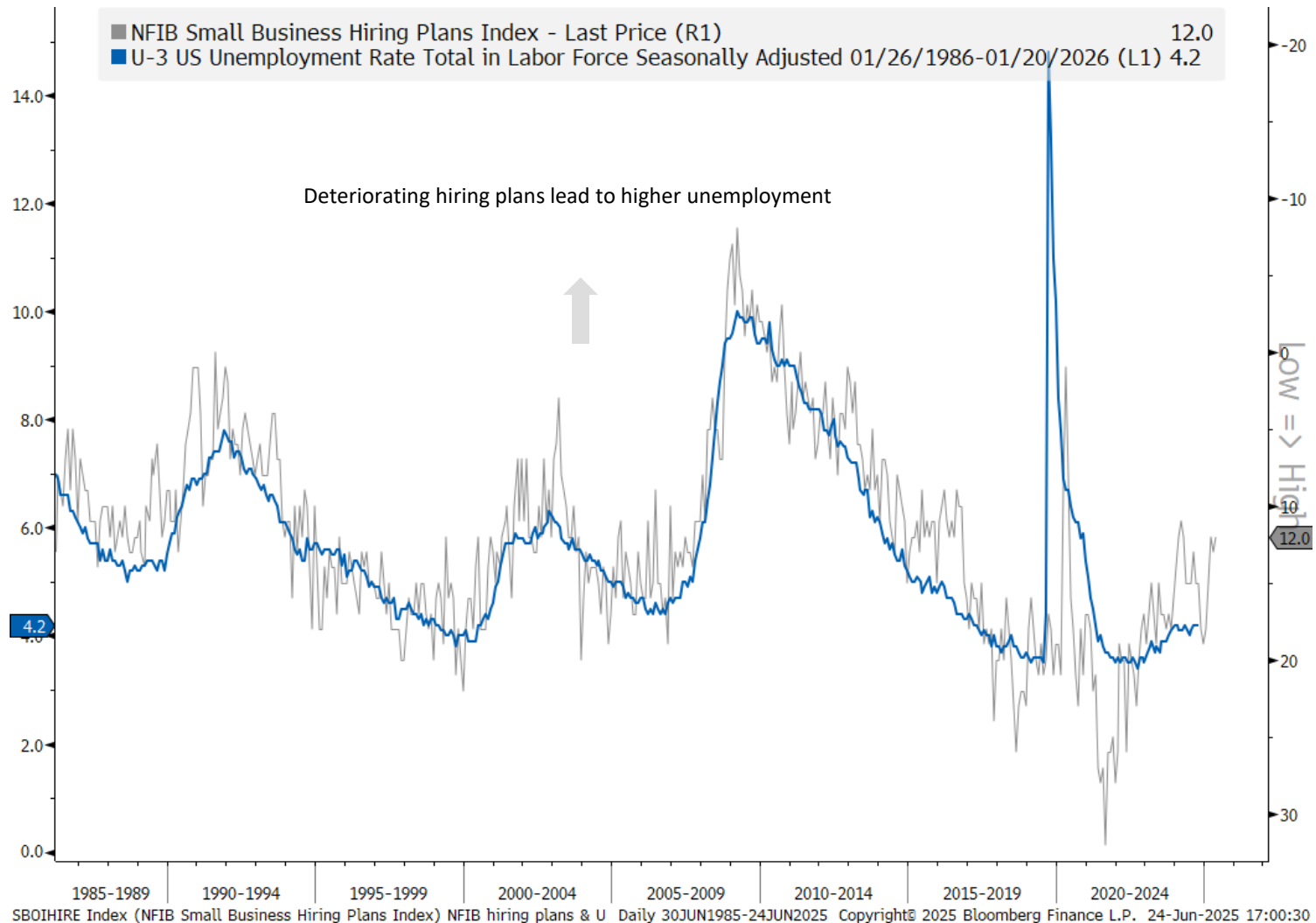


A sharp fall in business and consumer sentiment has triggered fears of lower growth and higher inflation, which failed to materialized in Q2



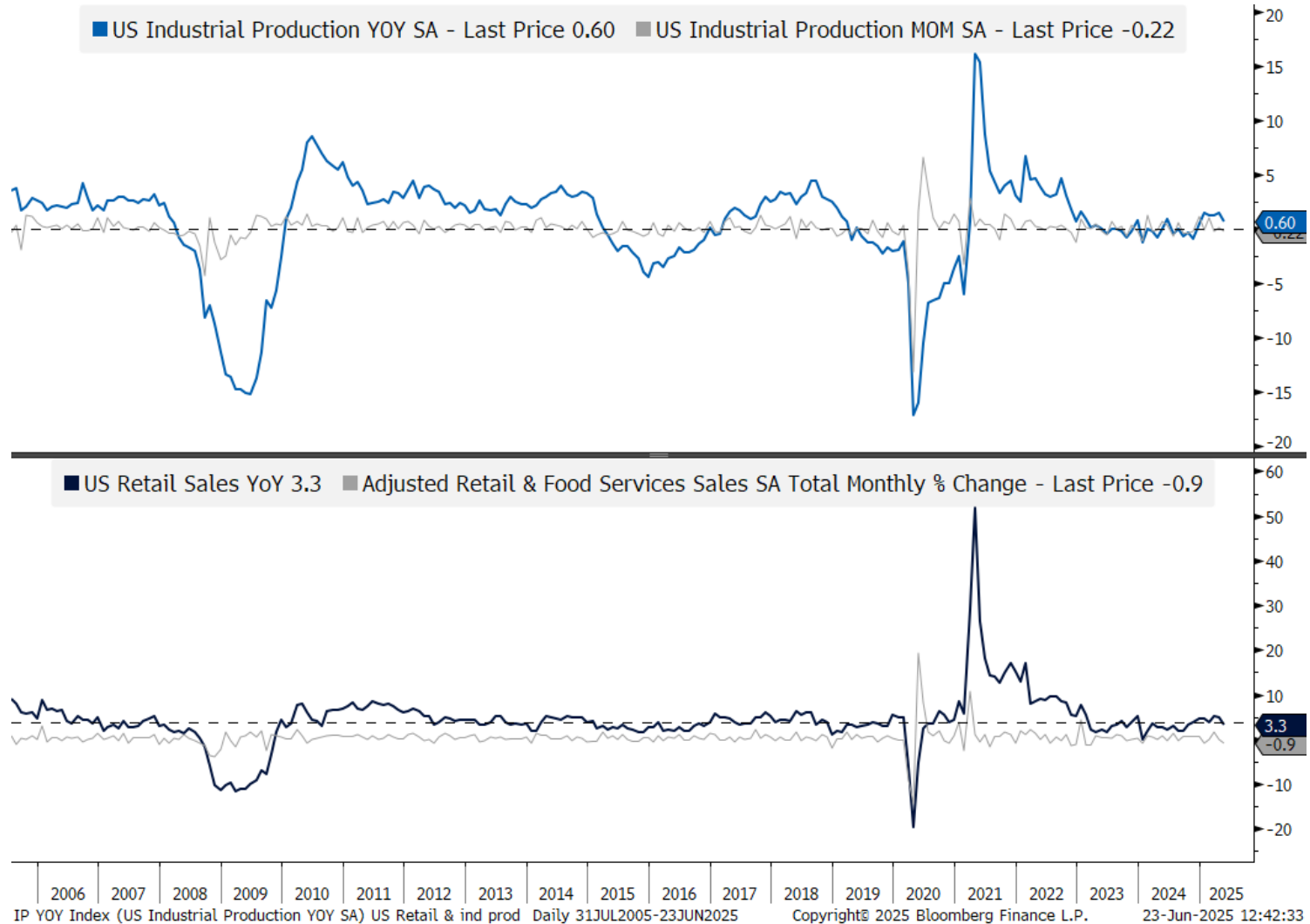


Soft data has been pointing toward material weakness in the labor market, but the unemployment rate stayed resilient



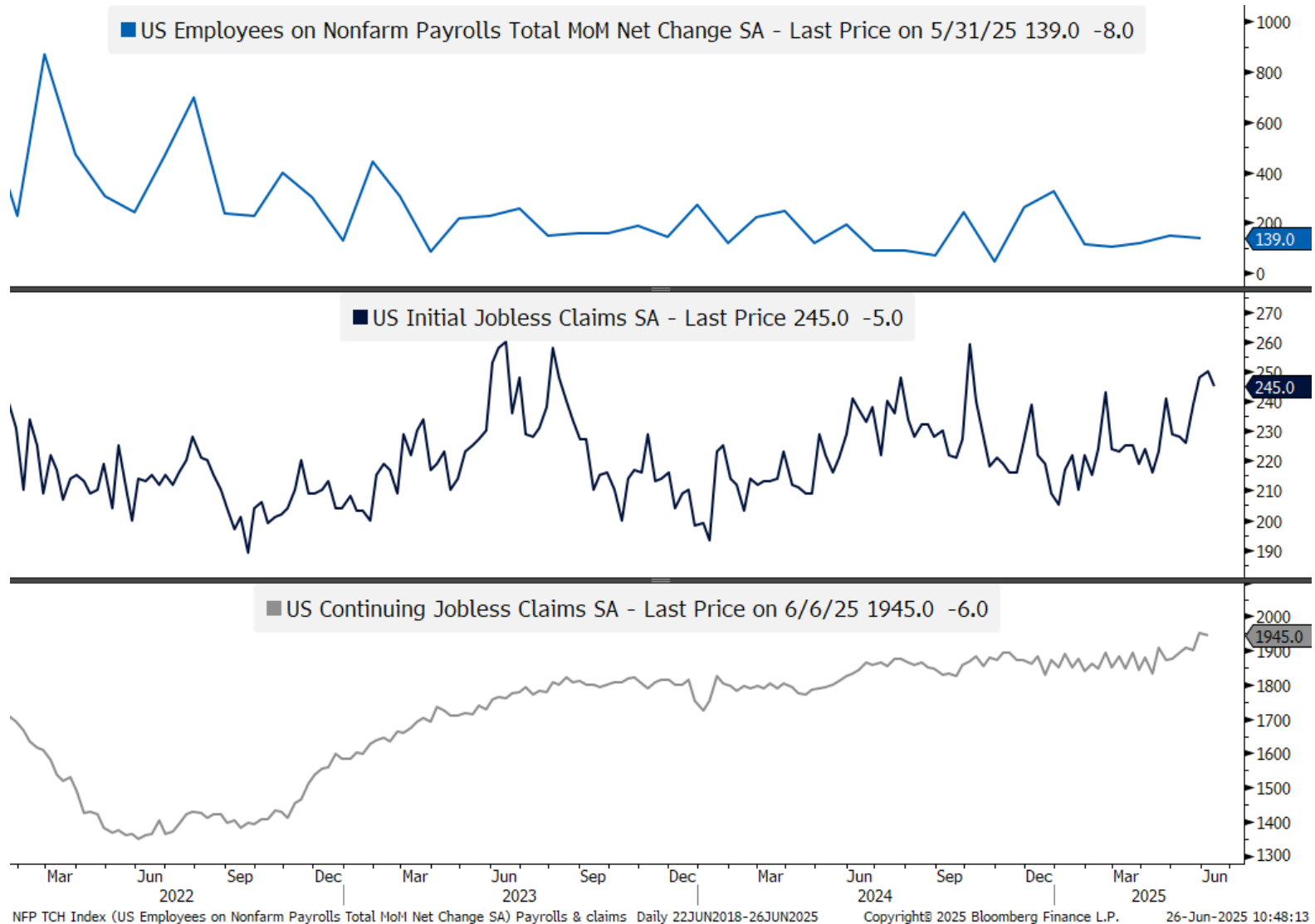


The hard data has held up throughout Q2, possibly due to frontloaded demand before tariffs. The data have recently started to show modest signs of deceleration



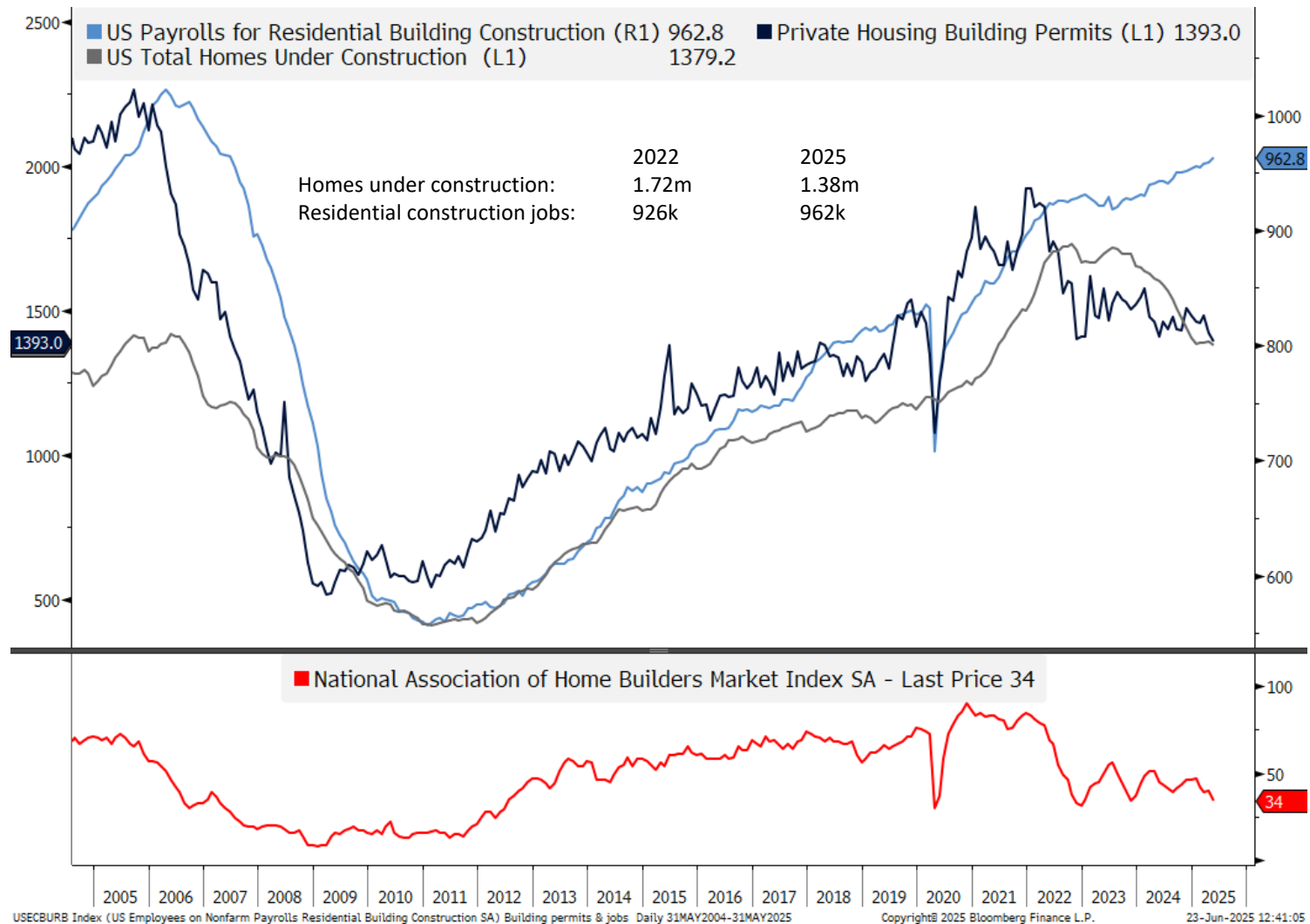


The labor market has been cooling for months, but the last few weeks have seen signs of a possible deterioration in that trend.



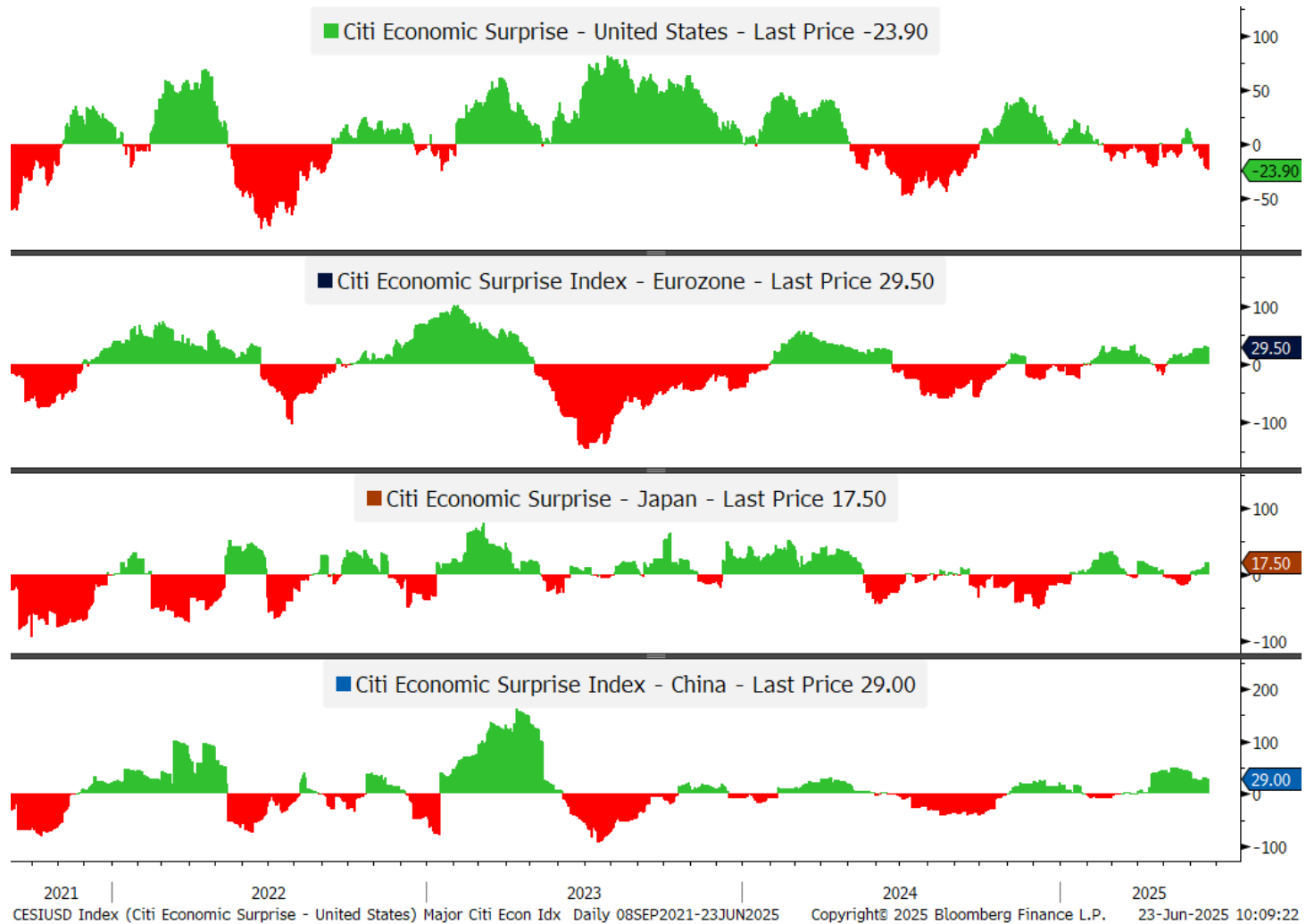


The housing market continues to show material weakness, and yet employment in that industry holds up, for now...



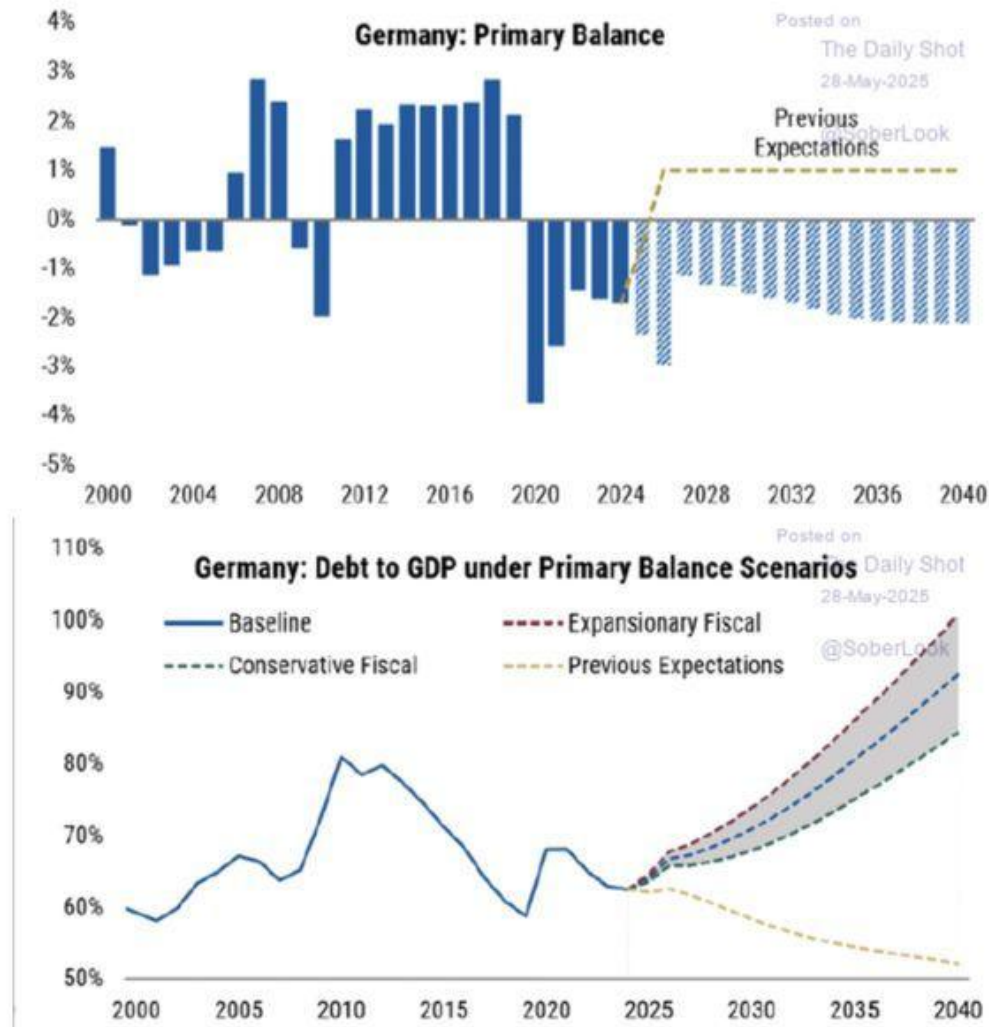


Negative US growth surprises have indeed picked up pace recently. The EU and China on the other hand have seen positive surprises.



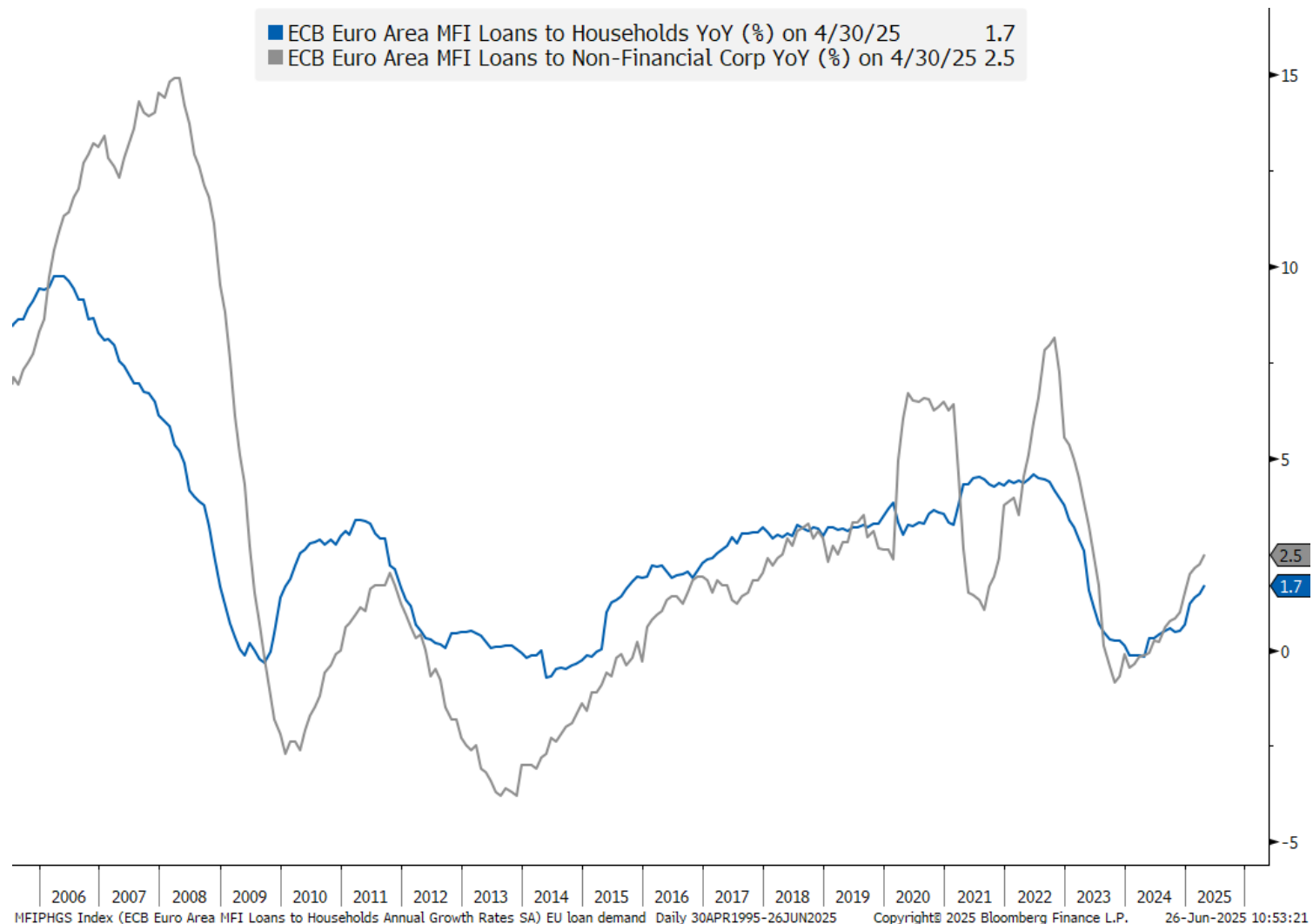


Germany's fiscal expansion remains the main reason to retain a positive outlook for the EU



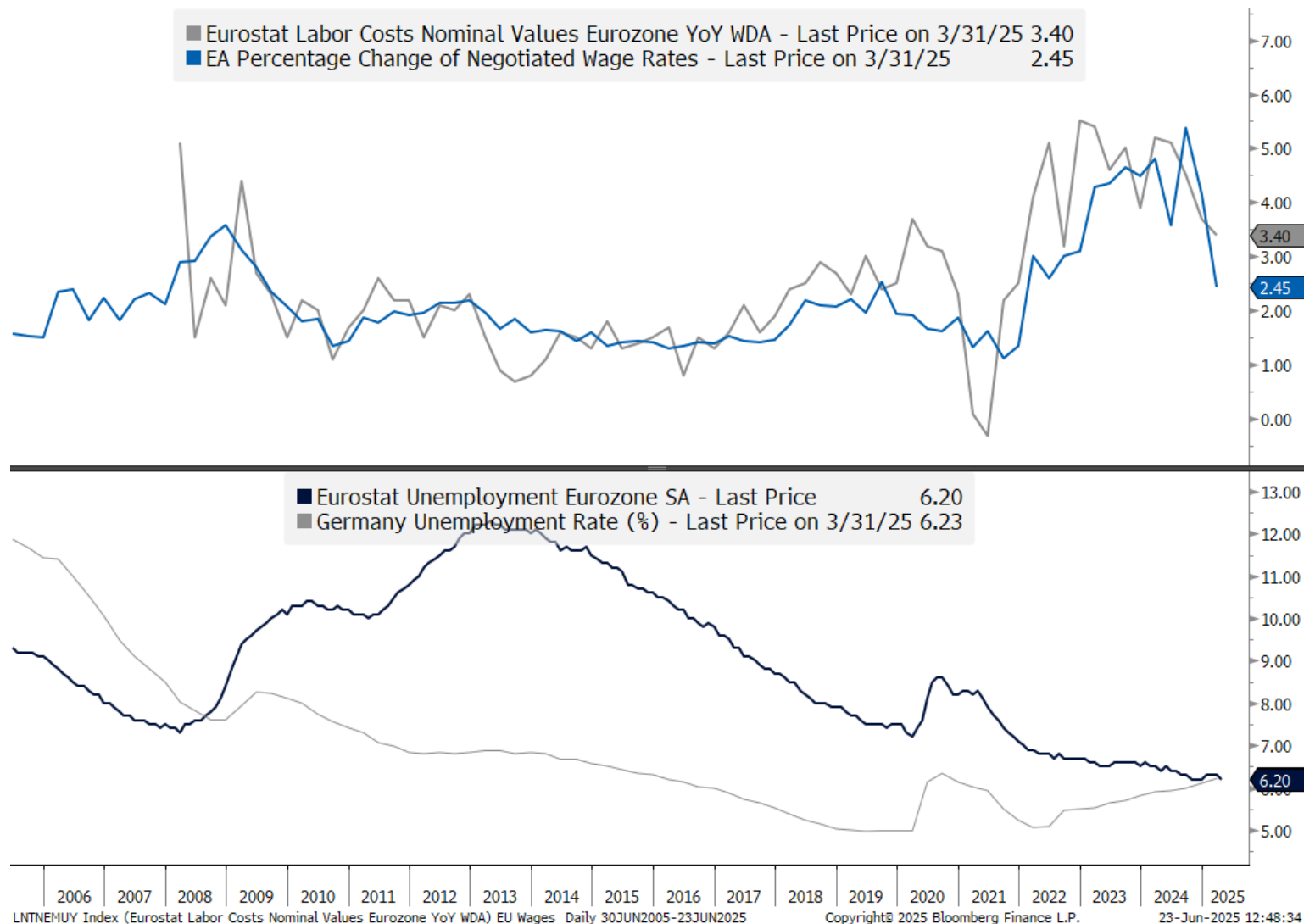


The credit cycle is also supportive of growth, and should continue to be given recent rate cuts



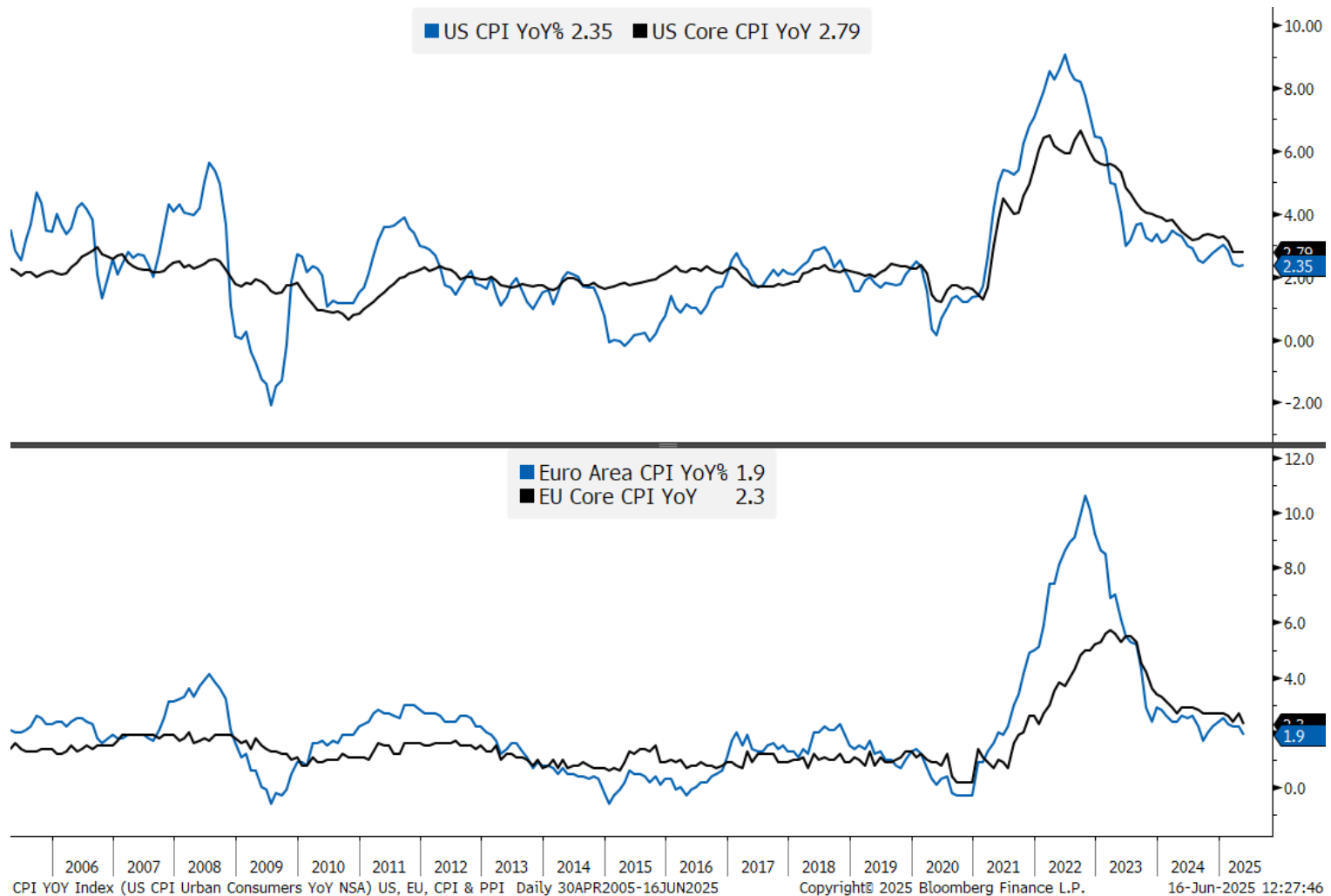


Real wages are normalizing, and the unemployment rate is low...



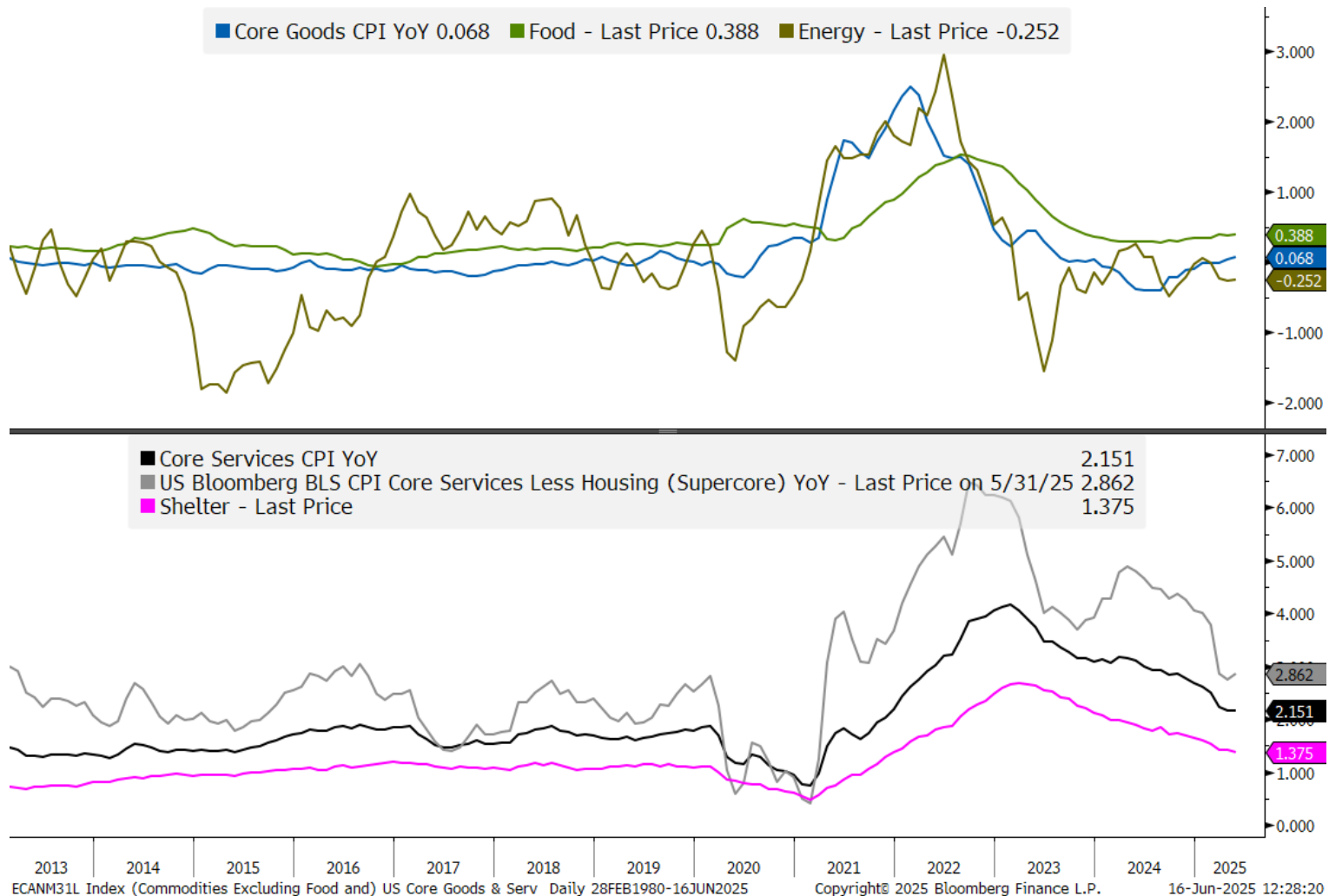


Inflation has been edging lower of late, helped by weak energy prices and easing services prices. Inflation is likely to pick up again going forward on the back of tariffs and commodities.



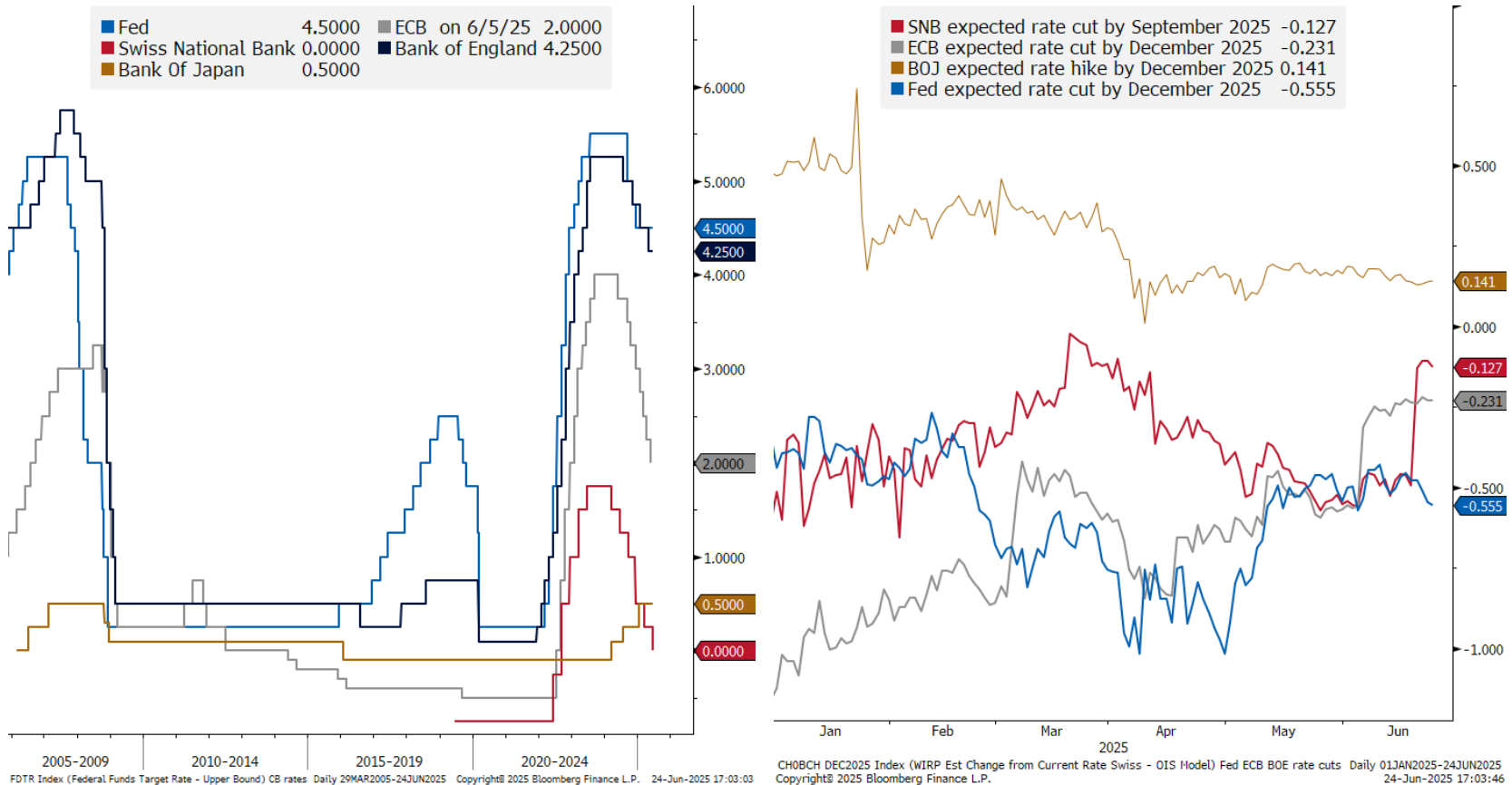


Tariffs and rising commodity prices could start pushing good inflation significantly higher, more than offsetting the decline in services inflation.





Aside from the Fed, the easing cycle has continued in 2025. The ECB is at the end of the easing cycle, while the Fed could have further to go. The BOJ stands out with hikes on the table.



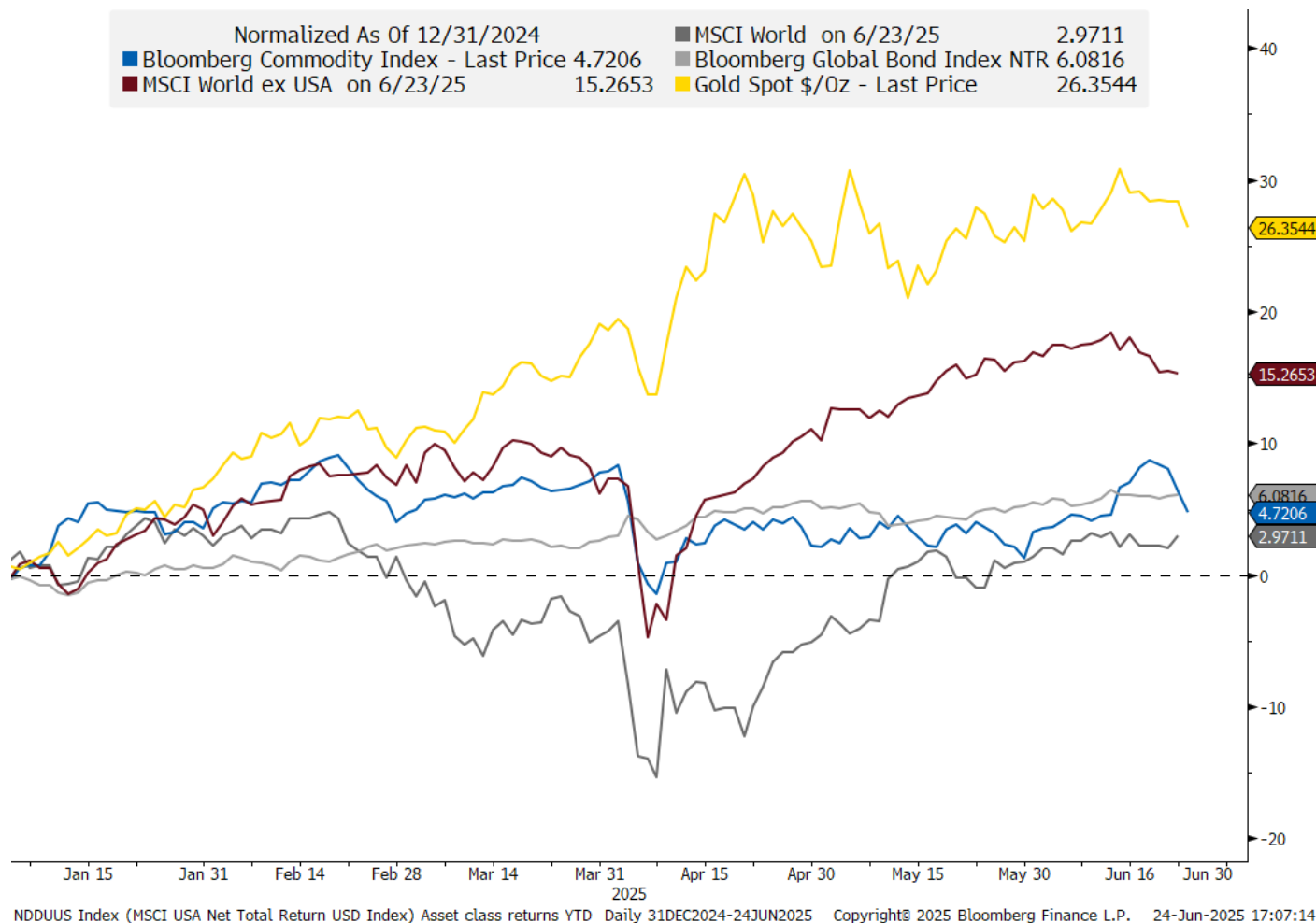


The Fed's latest economic projections illustrate the predicament. They expect higher inflation and slightly weaker growth relative to their previous forecasts. Barring a sharp acceleration in CPI, the Fed will err on the side of dovishness and cut twice this year.

Percent				
Variable	Median ¹			
	2025	2026	2027	Longer run
Change in real GDP	1.4	1.6	1.8	1.8
March projection	1.7	1.8	1.8	1.8
Unemployment rate	4.5	4.5	4.4	4.2
March projection	4.4	4.3	4.3	4.2
PCE inflation	3.0	2.4	2.1	2.0
March projection	2.7	2.2	2.0	2.0
Core PCE inflation ⁴	3.1	2.4	2.1	
March projection	2.8	2.2	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	3.9	3.6	3.4	3.0
March projection	3.9	3.4	3.1	3.0

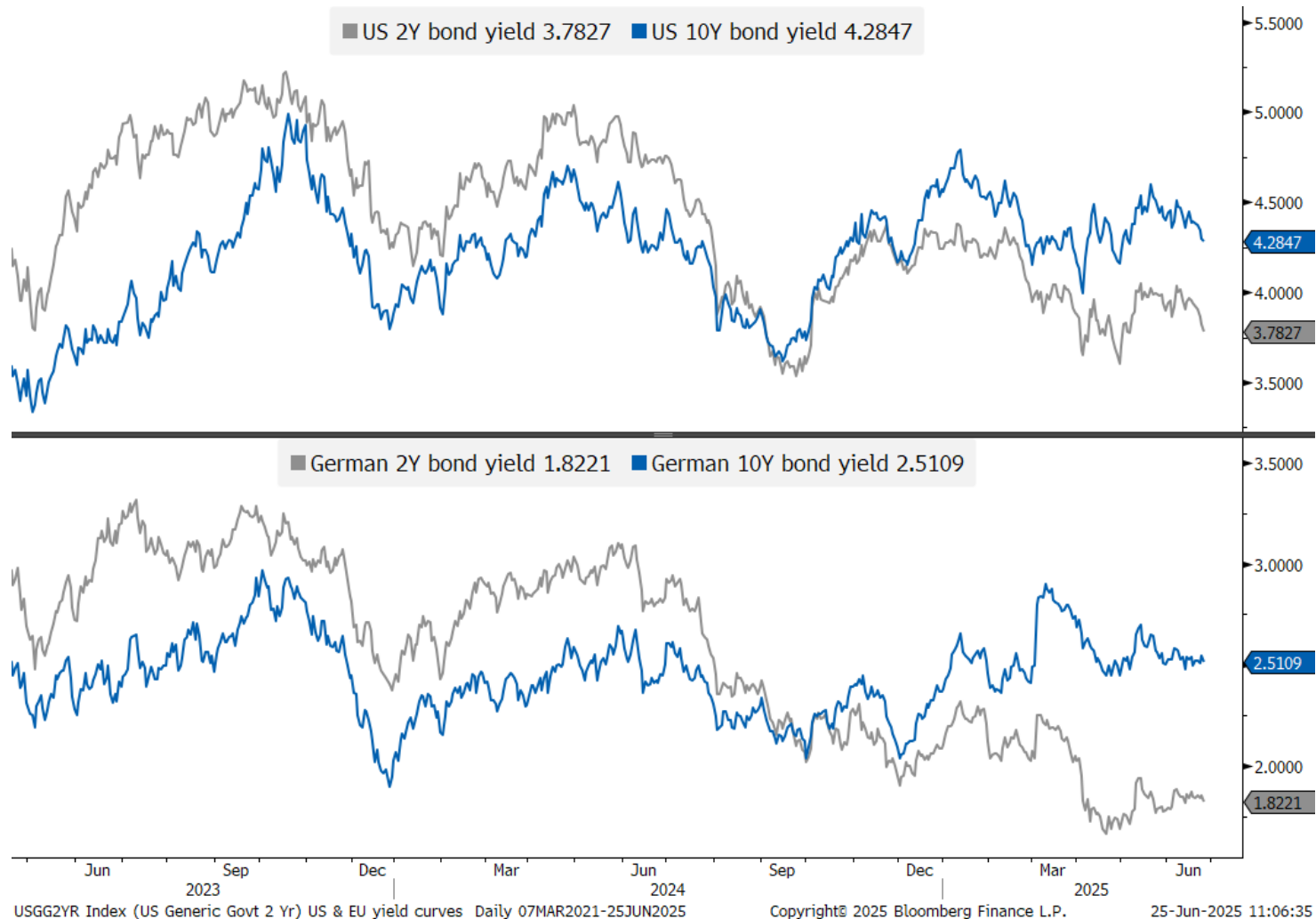


Low odds of recession keep favoring equities over bonds, but weakening US growth in Q3 likely to lead to volatility. US equities are likely to keep lagging. Certain commodities should do well given possible trade and geopolitical disruptions. Gold will continue to perform.



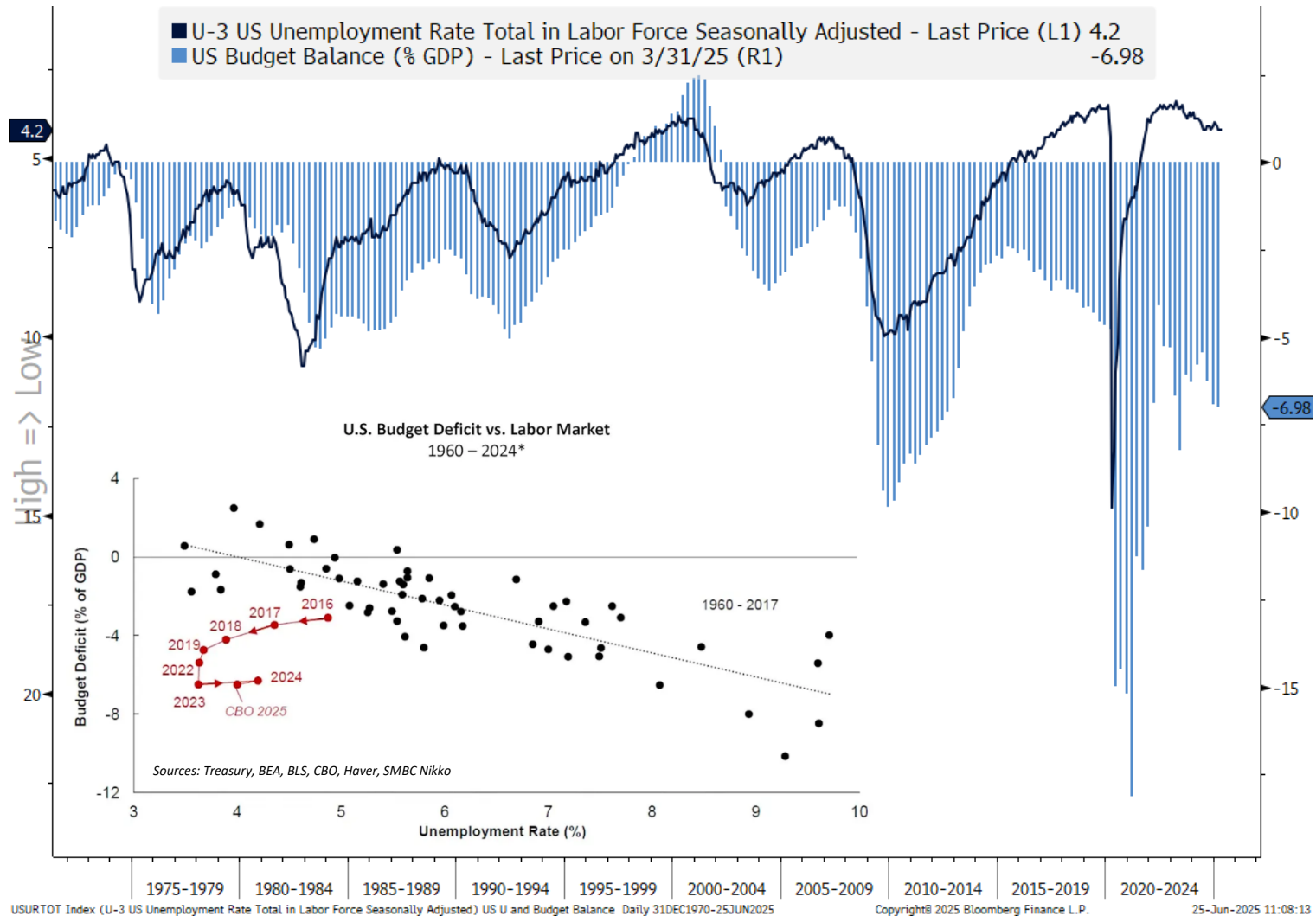


Yields have been largely rangebound. We continue to see upward pressure on long-term yields. But the short to medium part of the US curve is however attractive.



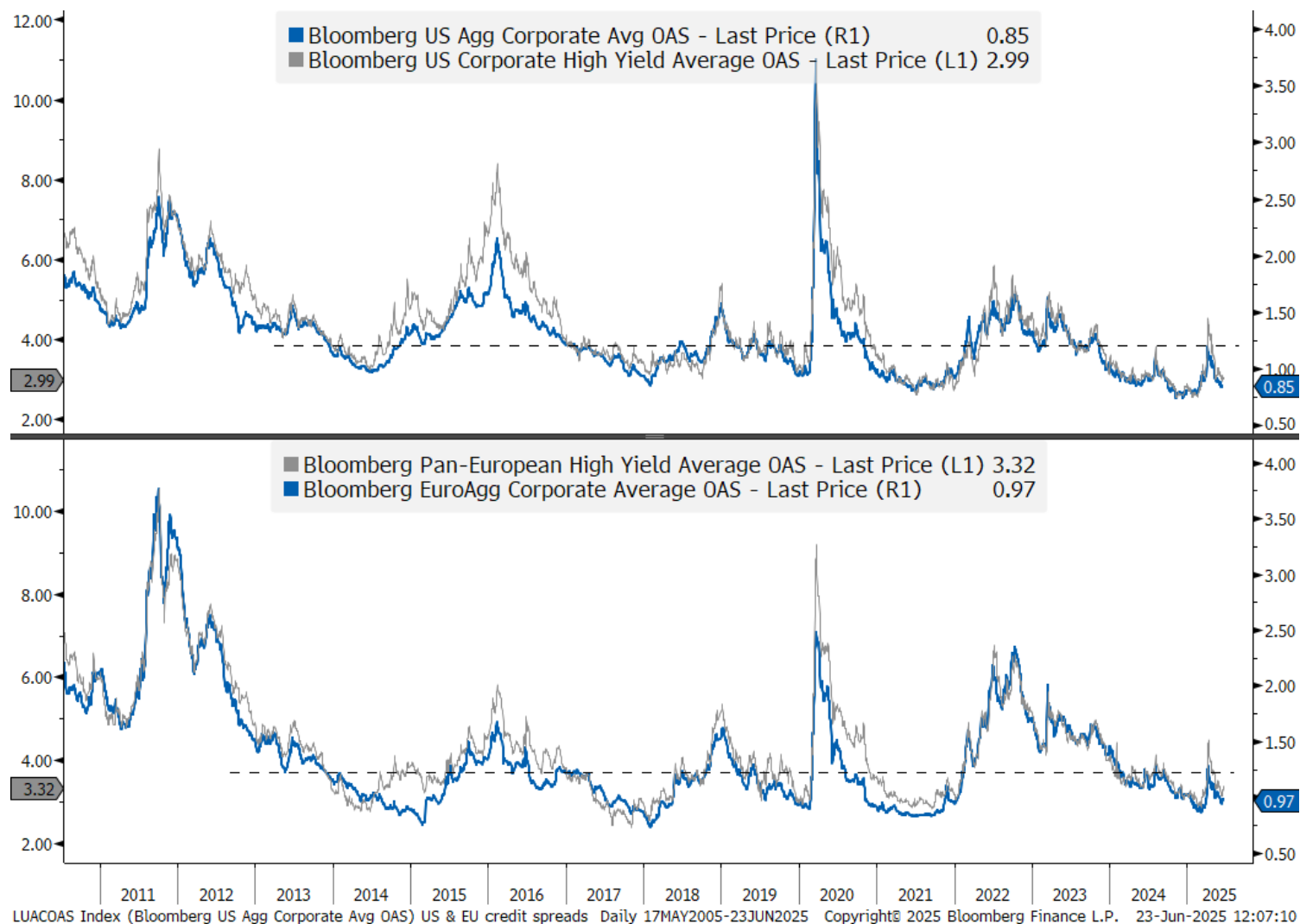


With US fiscal rectitude off the table again, the long-end of the curve will struggle to go down...



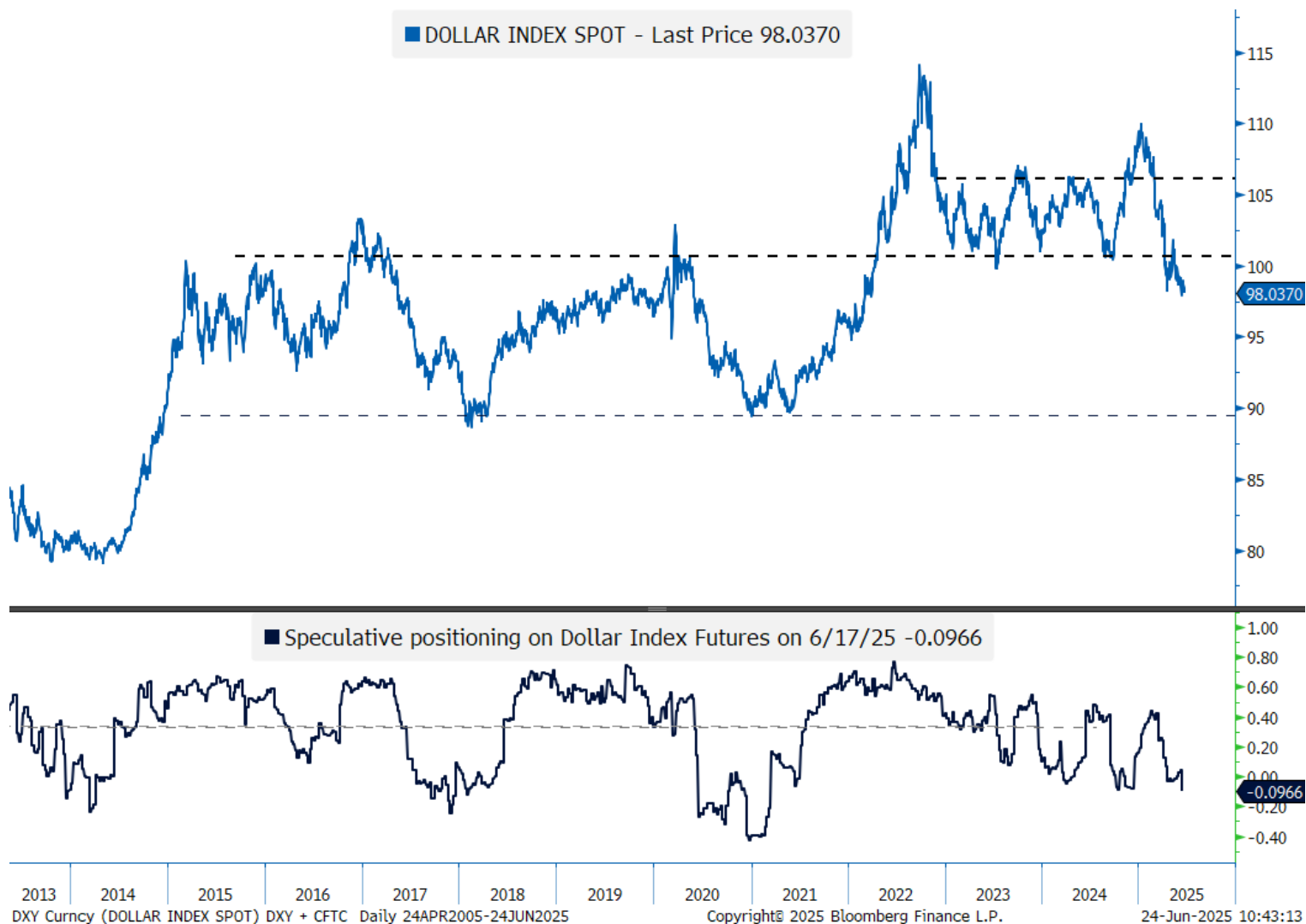


Credit spreads are not pointing to any major slowdown, but they have not come back to the lows of early 2025. Limiting credit risk is still wise.





The USD has been under massive pressure and is back in the 2014-2021 range.

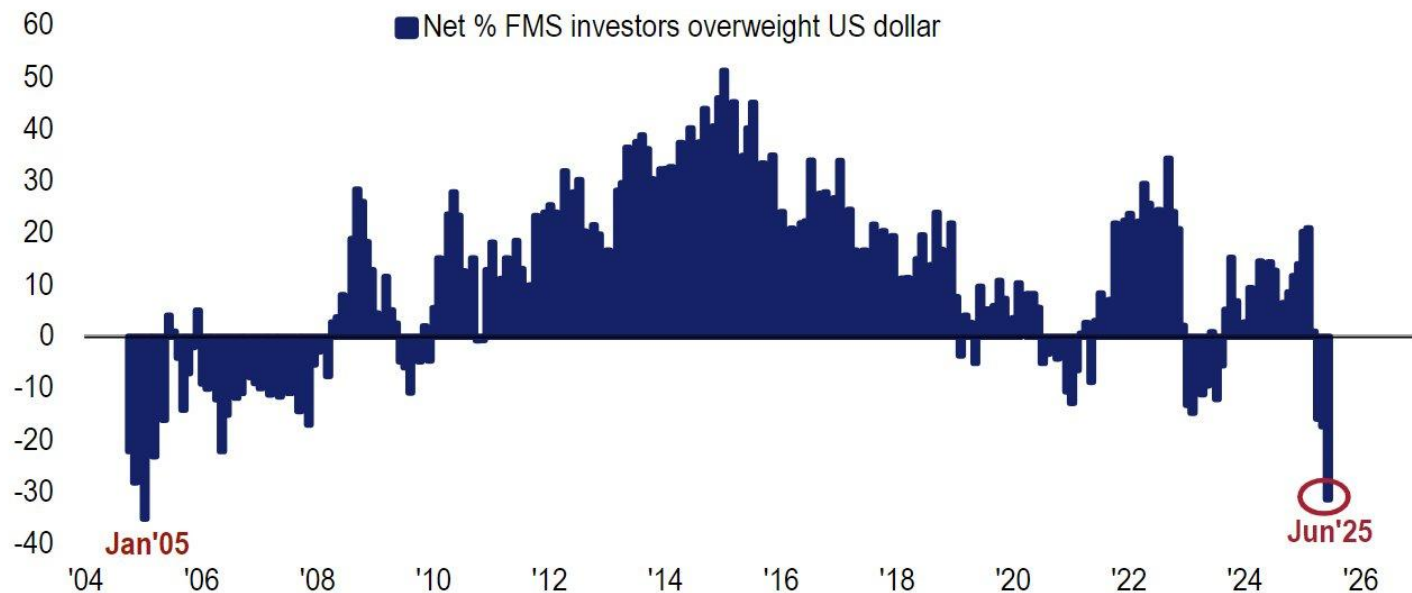




Sentiment is however quite extreme on the USD, increasing the odds of short-term rallies. They should be faded.

Chart 1: FMS most underweight the US dollar in 20 years

Net % FMS say they are overweight the US dollar



Source: BofA Global Fund Manager Survey

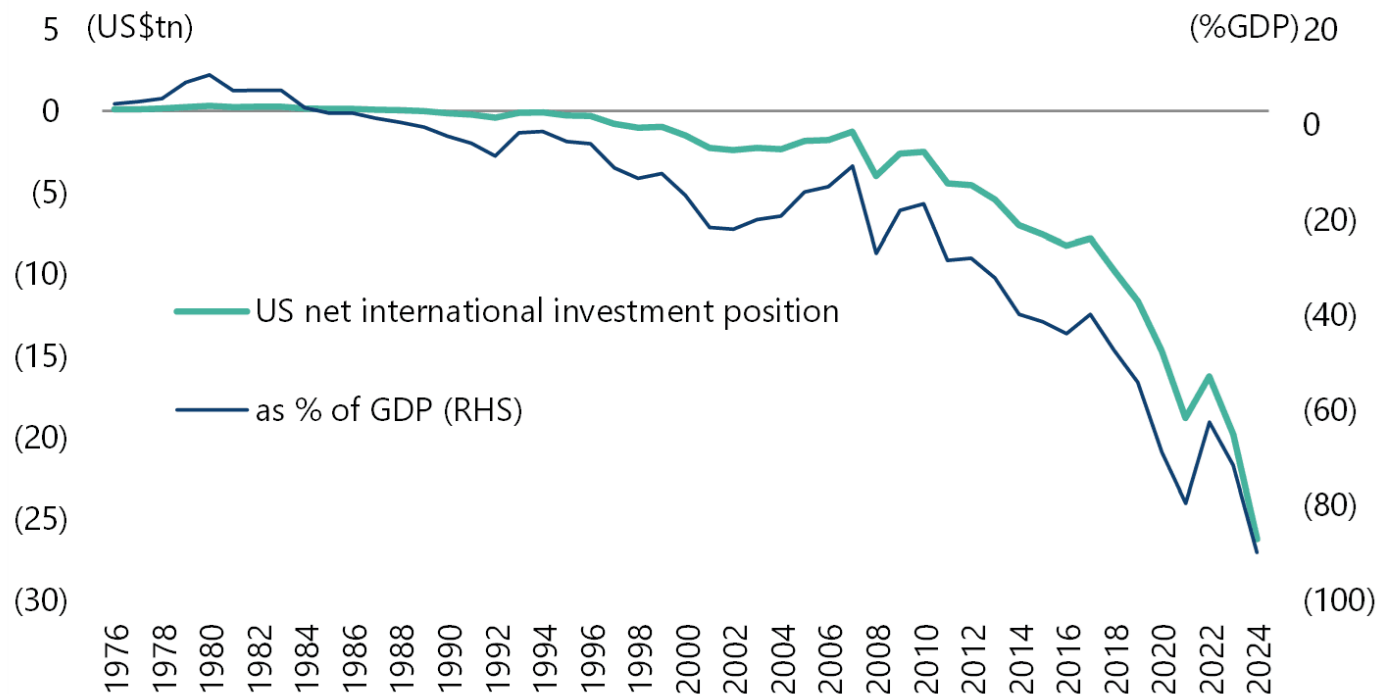
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The massive net International Investment Position of the US is a key factor behind the likely structural pressure on the USD, as capital is repatriated. Section 899 of the Big Beautiful Bill won't help...

Section 899 "allows the U.S. government to impose substantial retaliatory taxes on companies, individuals, and other entities from countries that the U.S. determines are imposing "unfair" or "discriminatory" taxes on American businesses, particularly in the context of new global tax rules and digital services taxes"

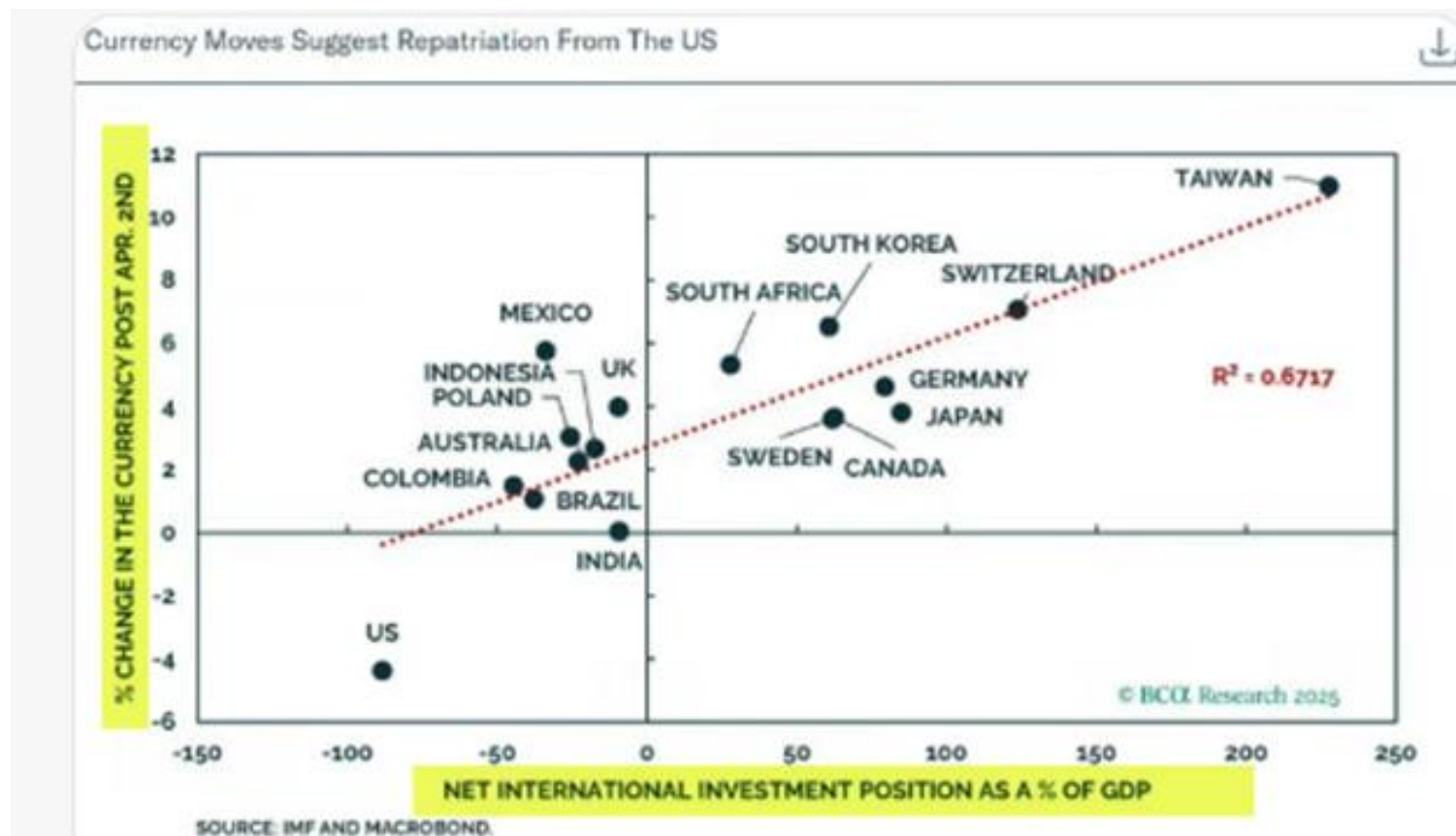
US net international investment position



Source: Bureau of Economic Analysis

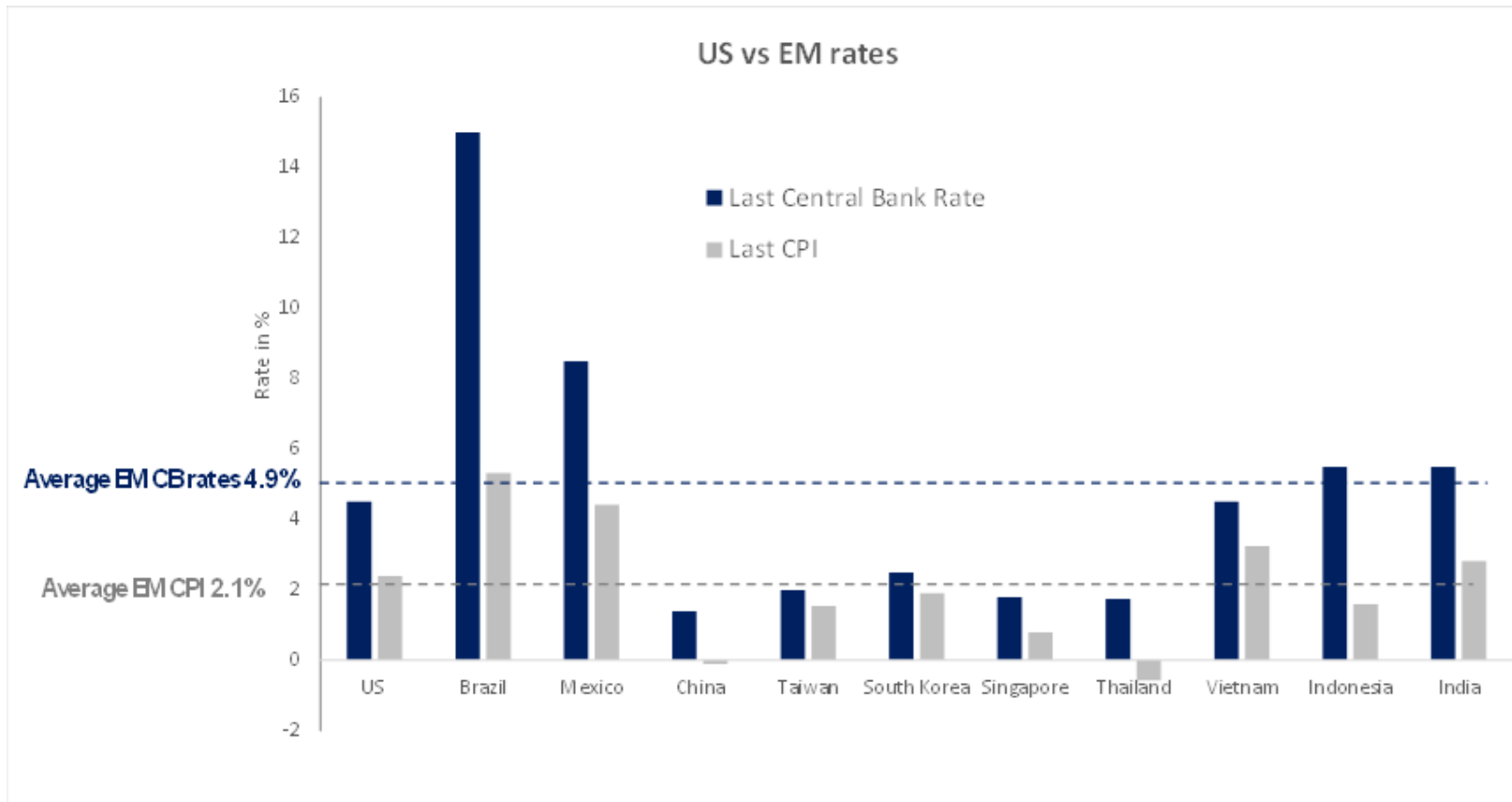


Currency moves suggest repatriation or hedging flows. The greater a country's net net investments in the US, the greater its currency appreciation since April.





The USD's weakness is favorable for EM fixed income, as it will allow EM central banks to cut rates, which in many cases are elevated in real terms.





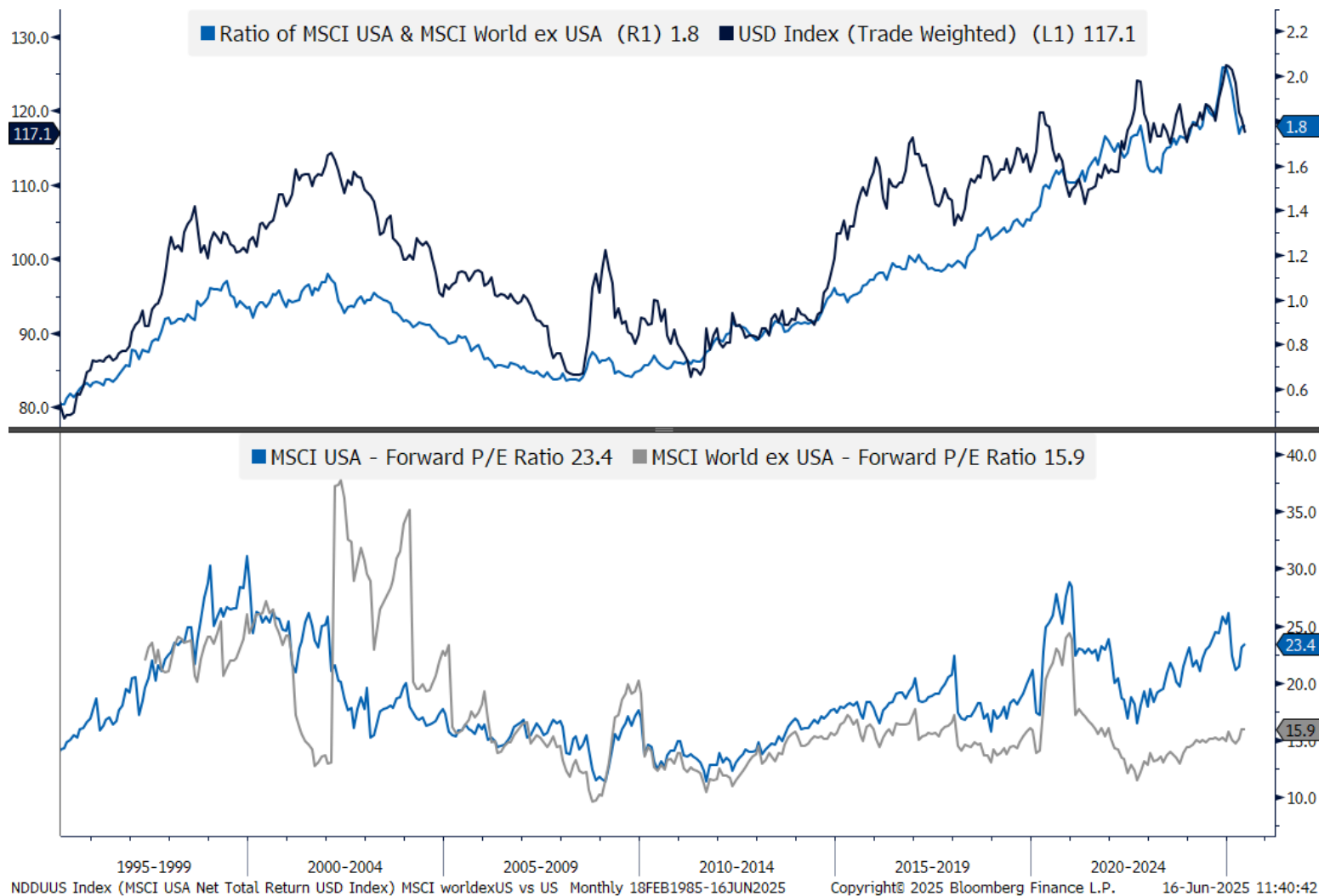
The dollar's failure to rally during the latest equity market correction is a key reason for international investors to adjust their positioning

Trade-weighted dollar performance at each S&P 500 correction of at least 10% since 2010



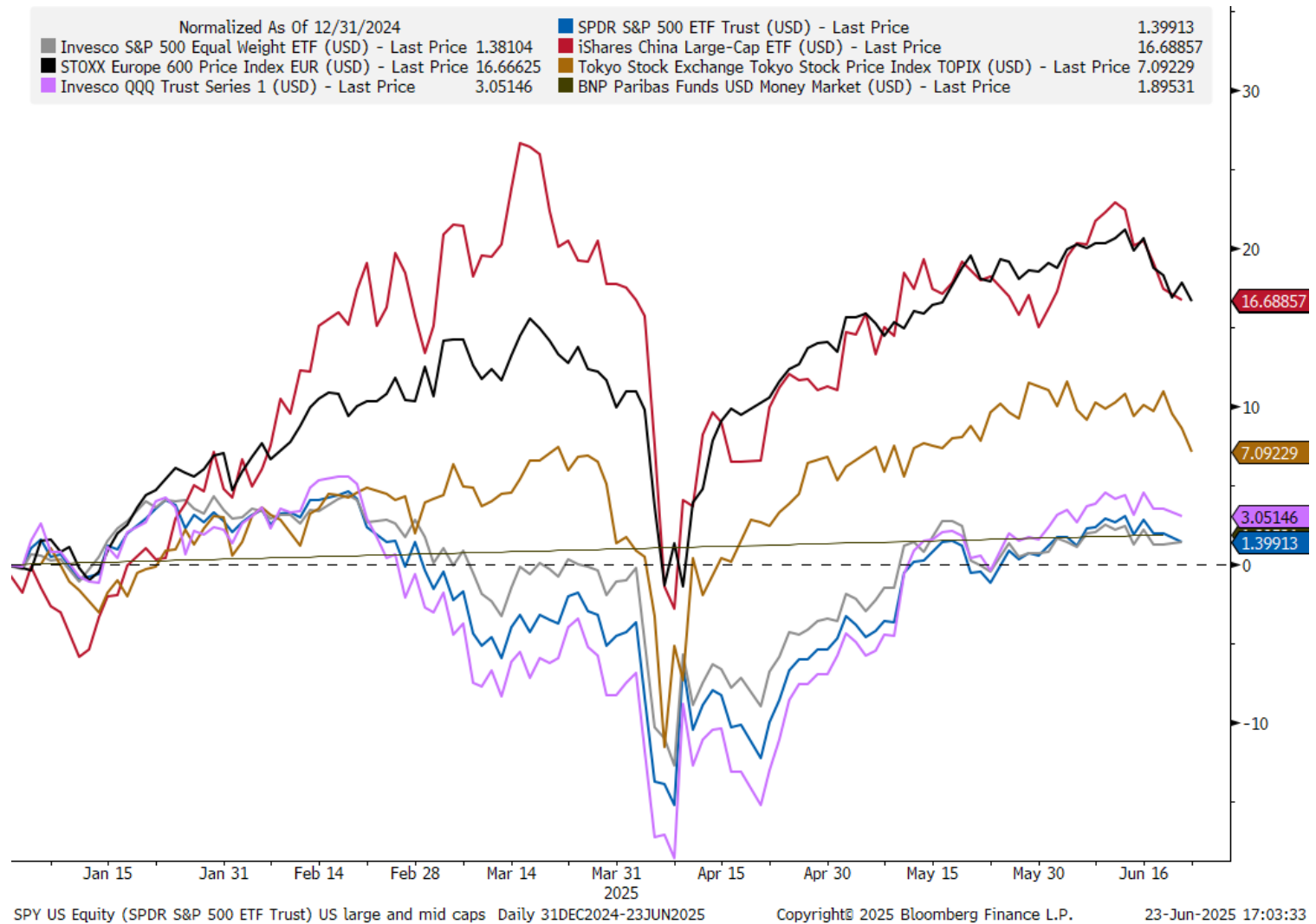


Structural dollar weakness and rebalancing flows will see continued US underperformance



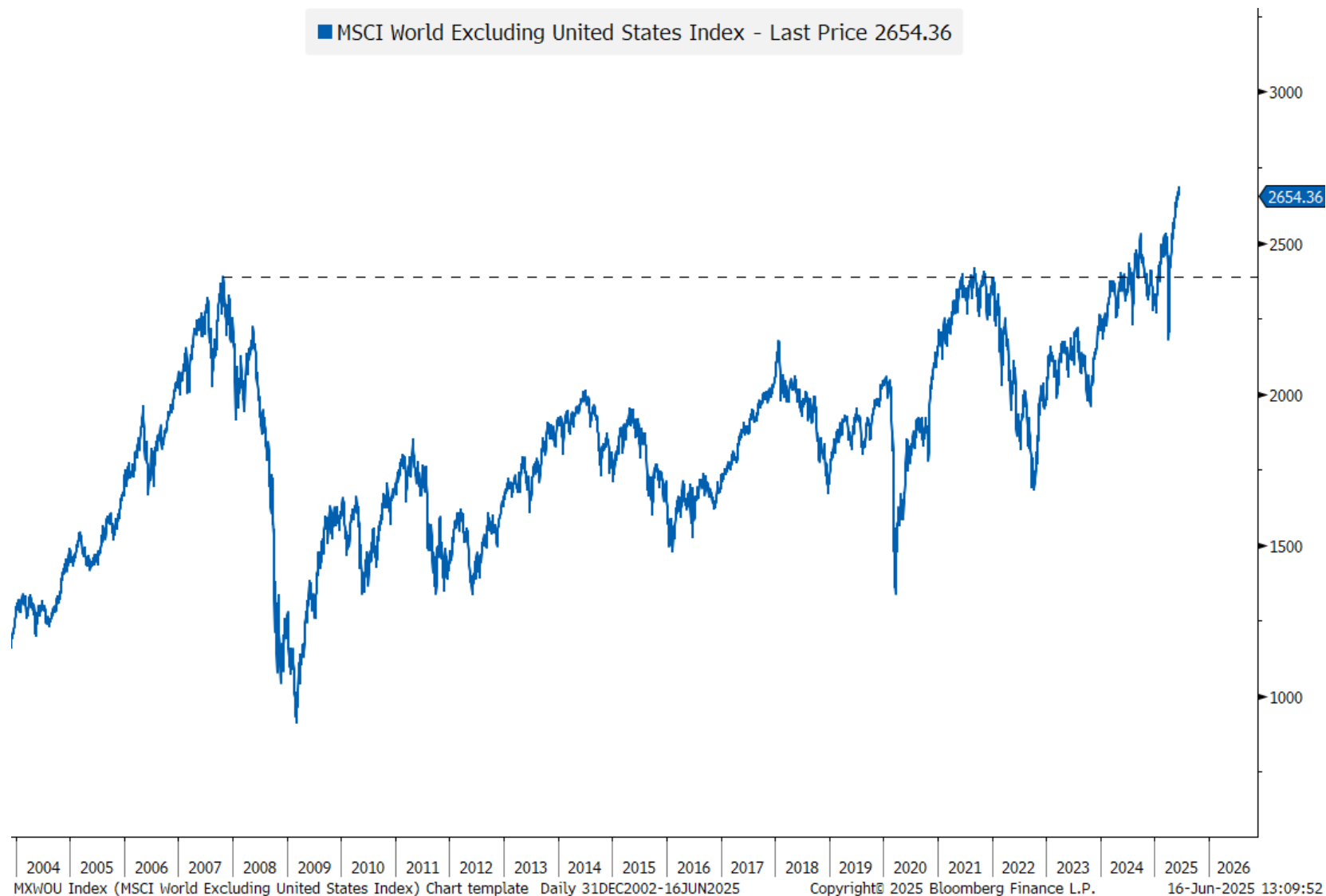


Despite Trump's turnaround, and the significant tech recovery, US markets keep lagging YTD.



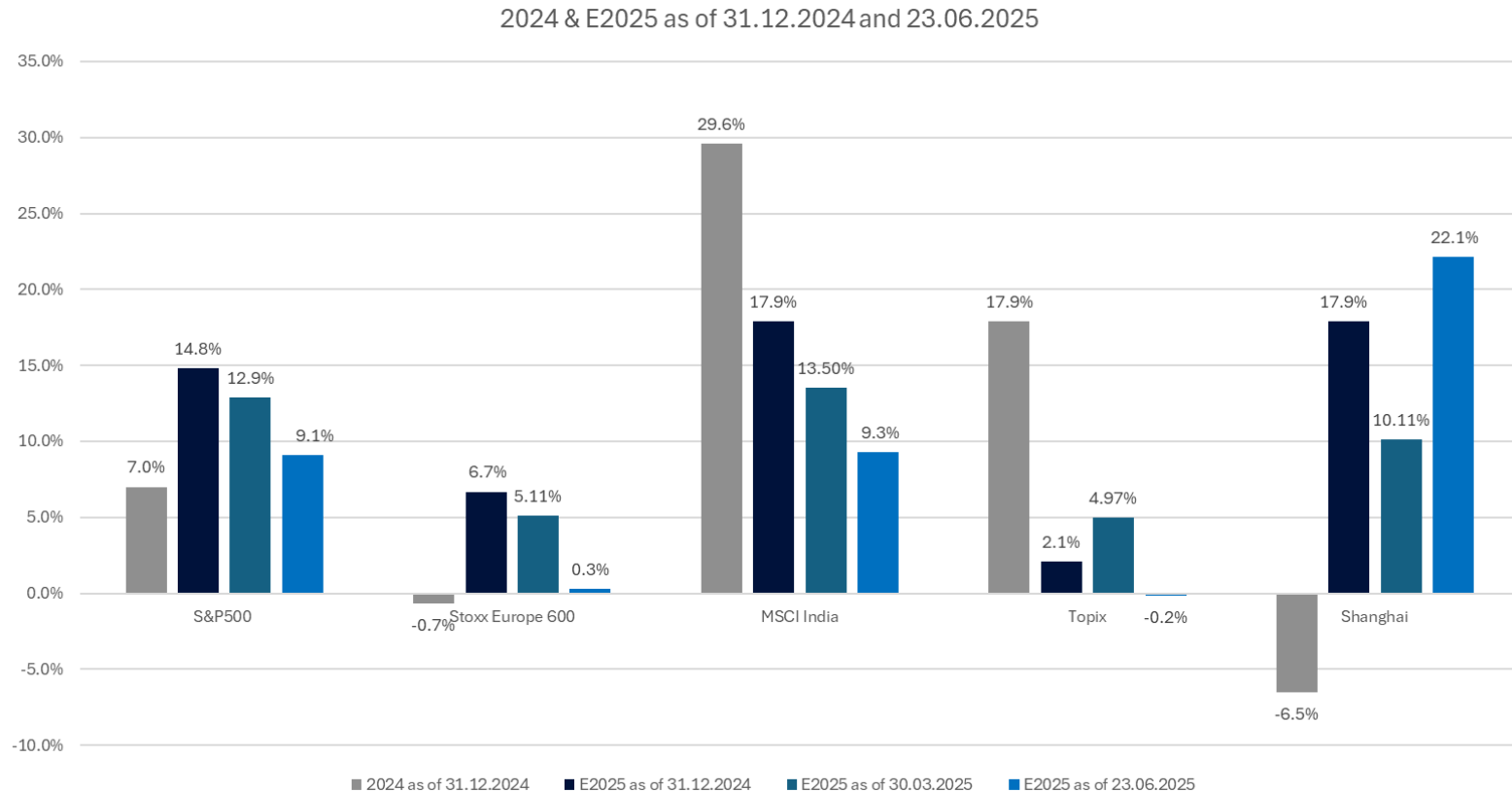


Major breakout on global equities ex-US



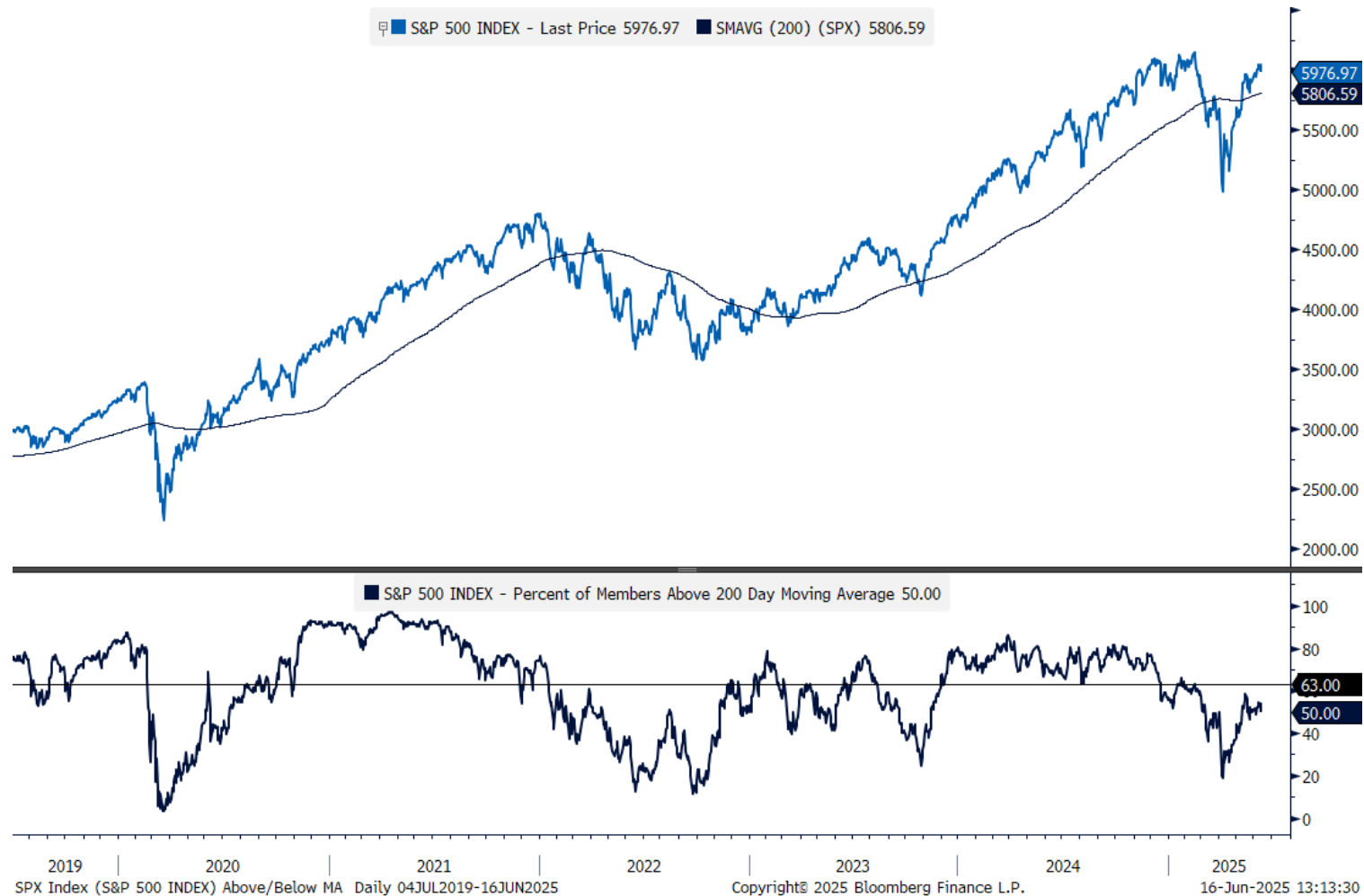


Earnings growth estimates have come down across the board, except in China. They remain elevated in the US.



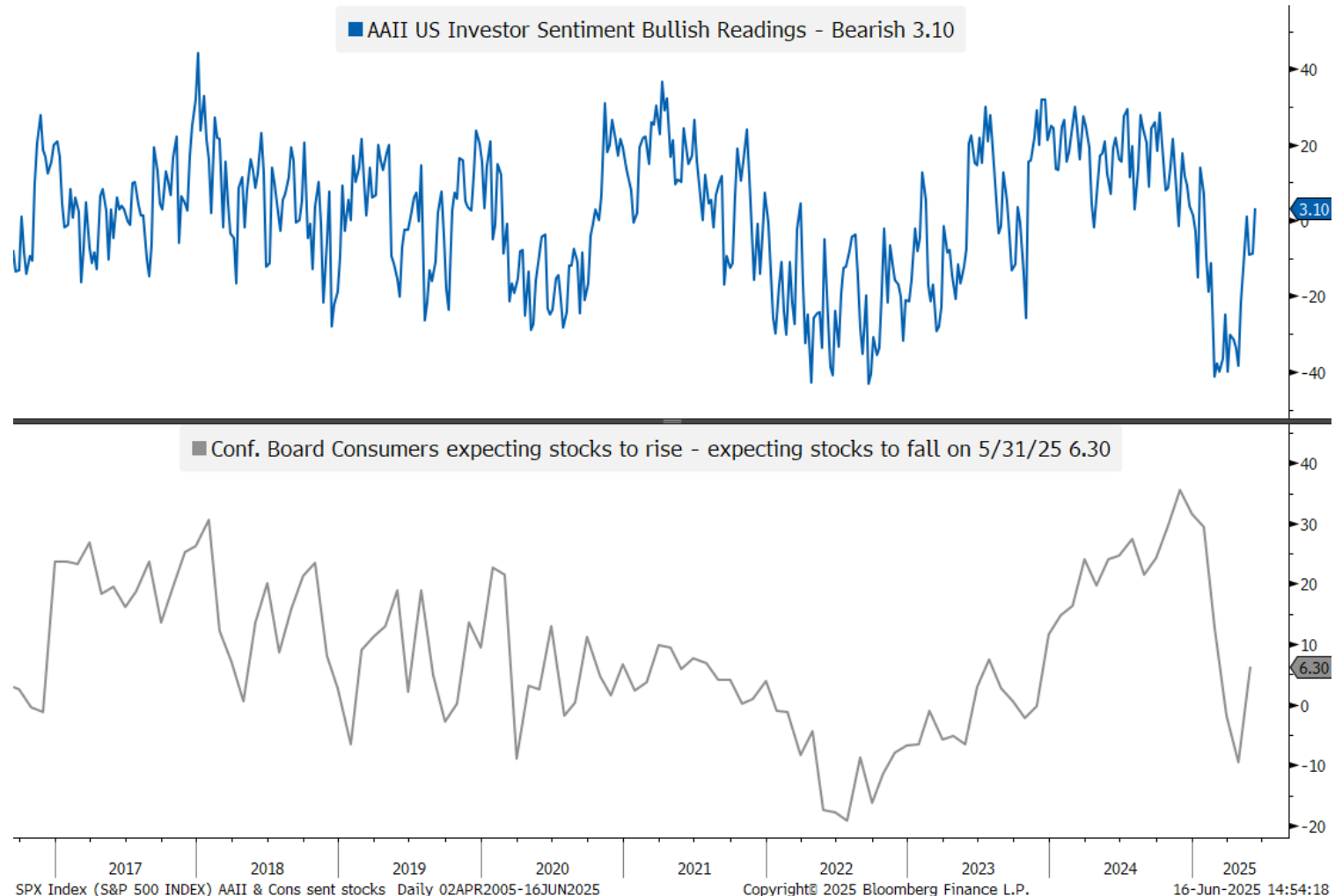


The short-term could see further upside, but not much value at current levels given the recent weakening data and upcoming key trade and fiscal deadlines. A summer 10% pullback could be buyable assuming no major change on the fiscal and trade fronts.





Sentiment on stocks has bounced back to neutral territory, supported by the TACO narrative. Short-term upside could push it back to exuberance, which would trigger a warning sign.





Insiders seem to agree

The insiders

Corporate executive stock sales reach all-time high

■ S&P 500 index ■ Ratio of sellers to buyers



Sources: VerityData, LSEG via markets.ft.com

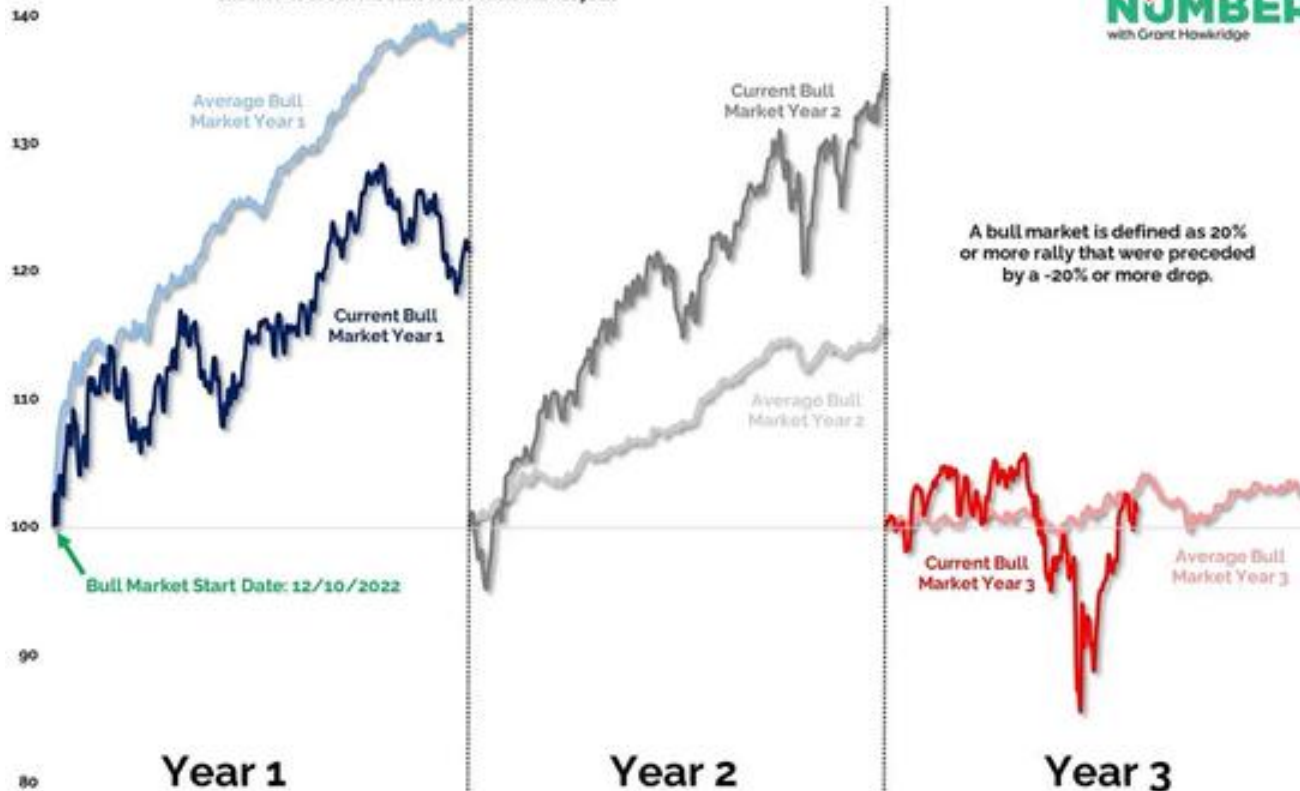
FINANCIAL TIMES



Year 3 of a bull market is historically volatile. We expect summer to offer the opportunity to buy back.

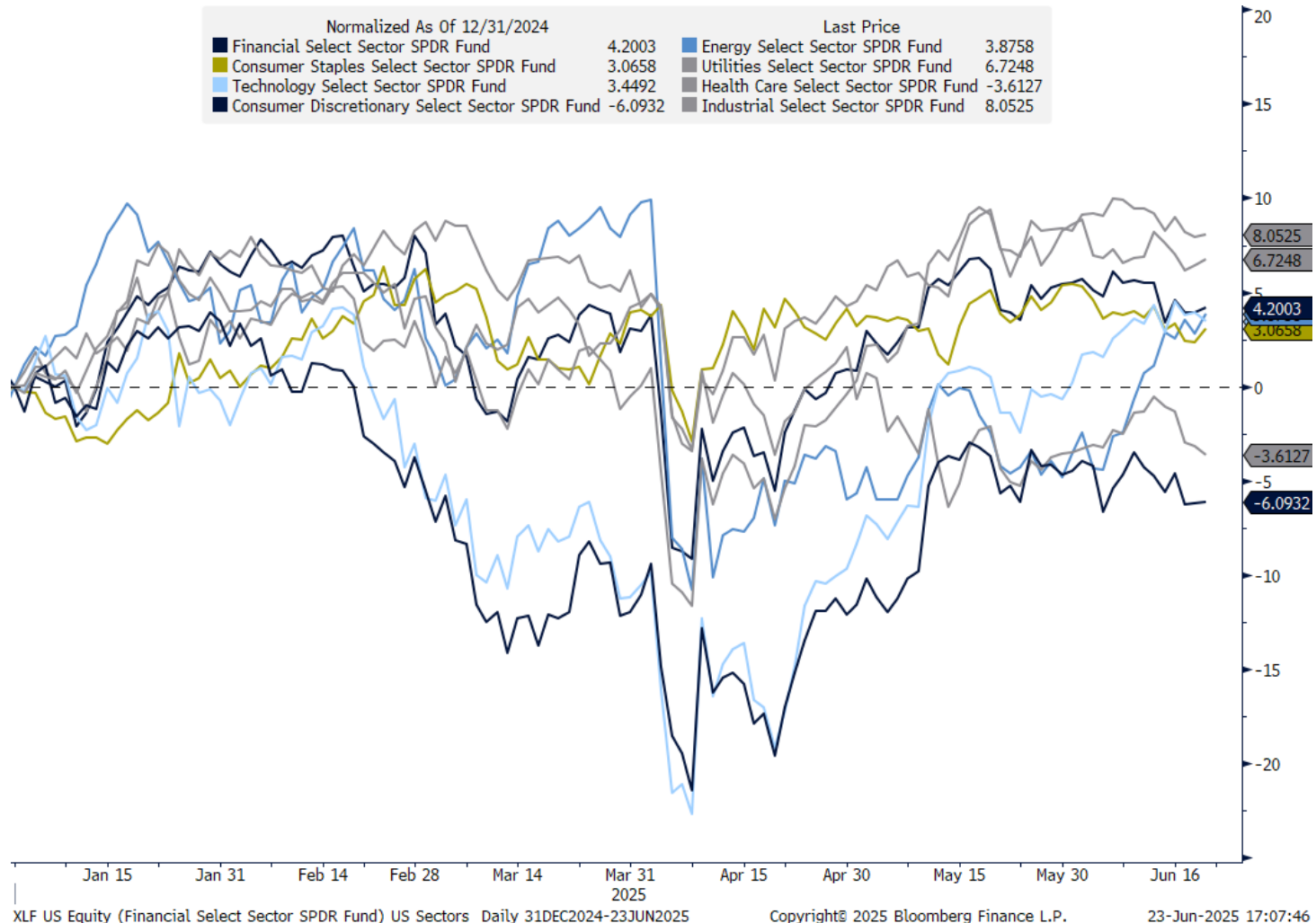
Year 3 of a Bull Market Tends to be Messy

(Indexed to 100 at the start of each bull market year)





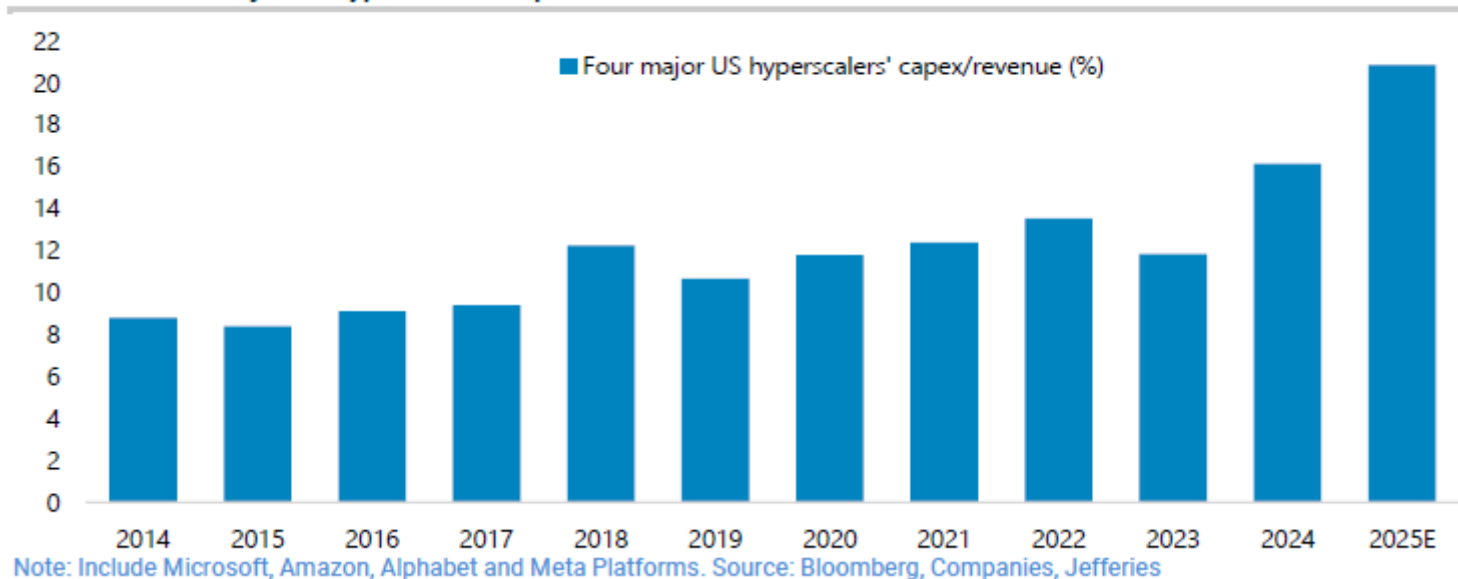
Tech has staged a big recovery and led the market in Q2, as key earnings have pointed to a continued capex/AI boom. The sector however continues to lag YTD, with financials and industrials leading.





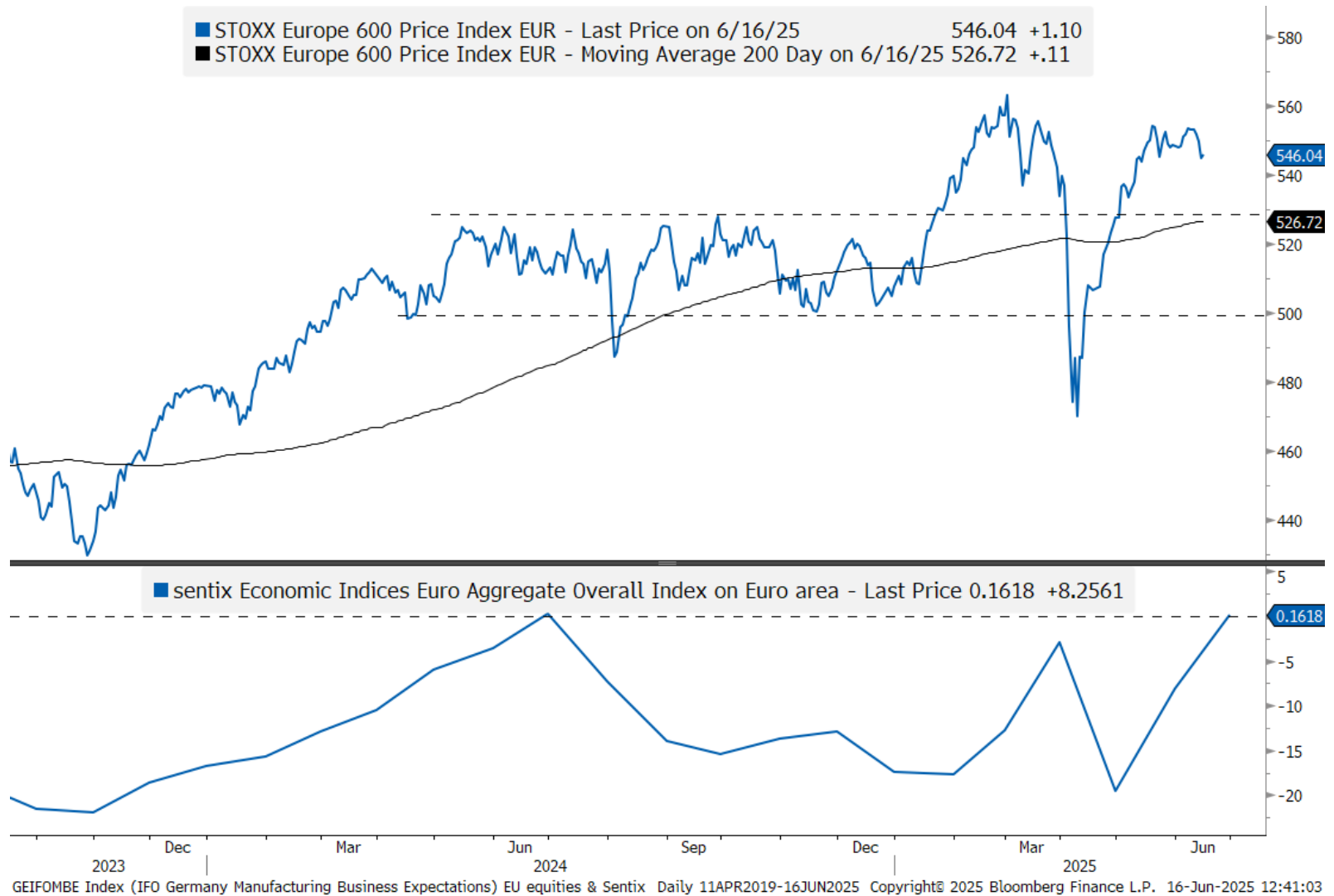
The initial fears triggered by the Deepseek announcement back in January have been brushed aside given the continued capex spending

Exhibit 19: Four major US hyperscalers' capex as % of revenue



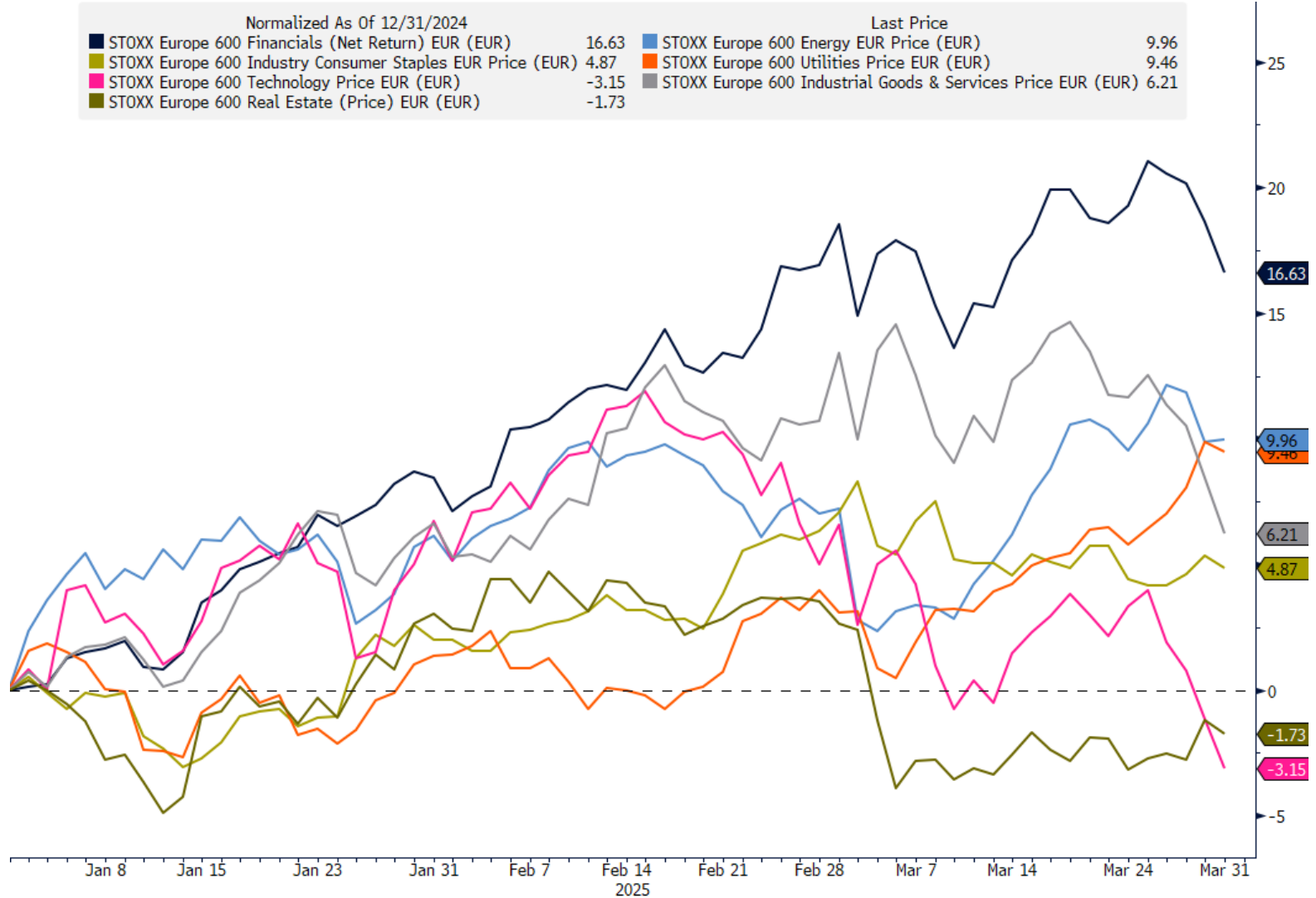


EU equities remain reasonably priced and should be bought on dips



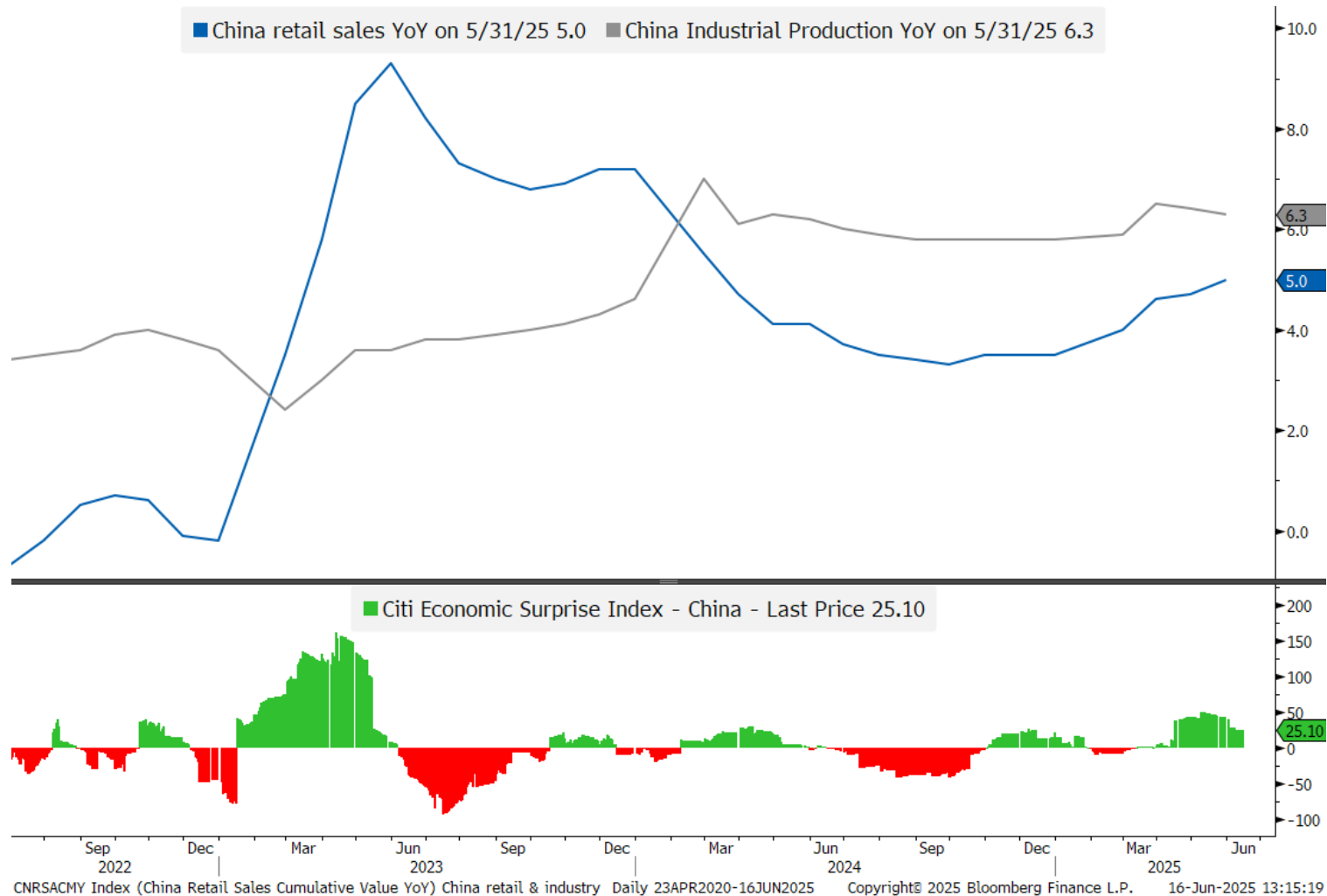


We continue to favor banks and industrials



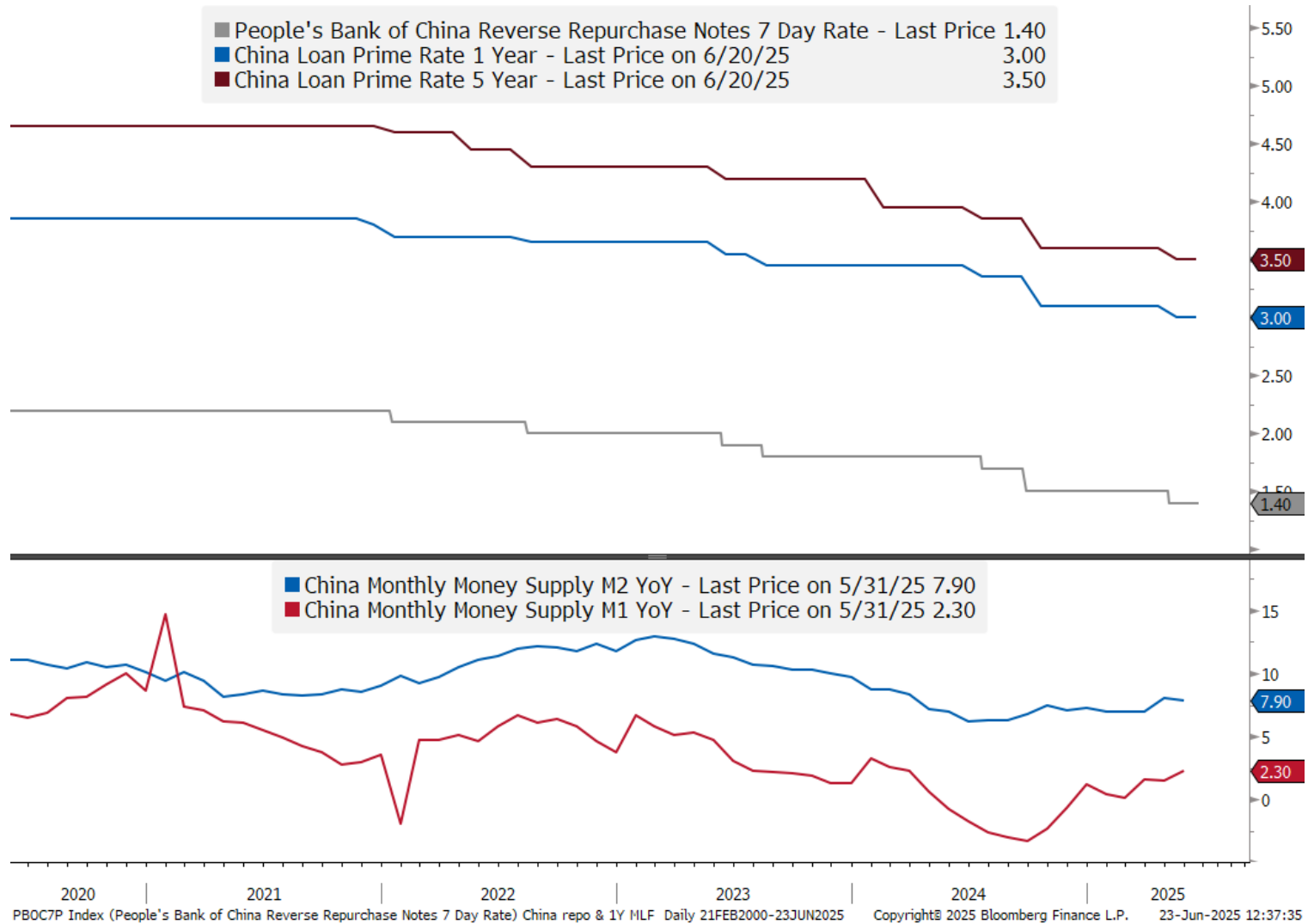


The Chinese economy has been resilient of late, with a pick up in retail sales pointing to improving consumer demand.



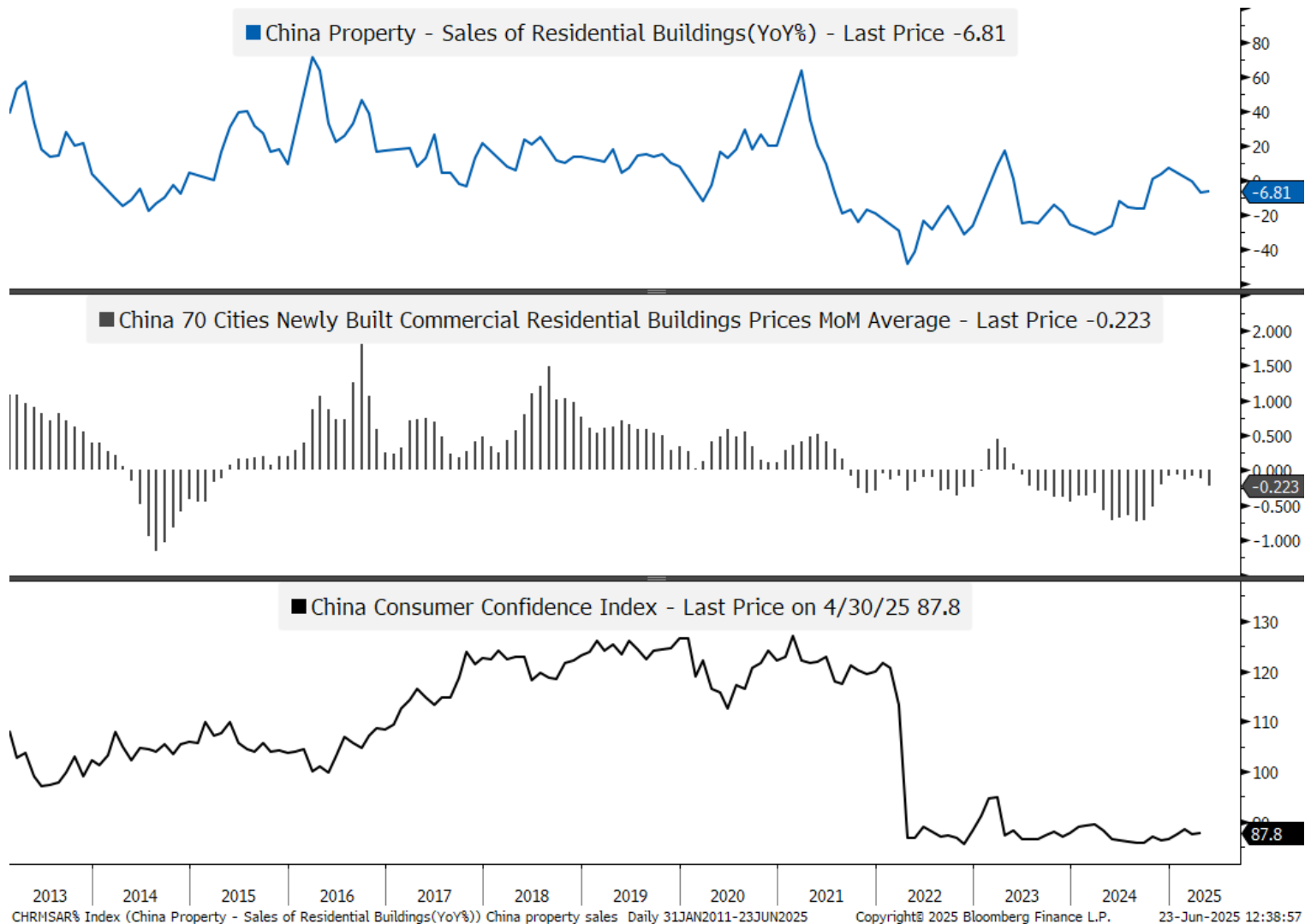


The government keeps adding marginal monetary and fiscal support





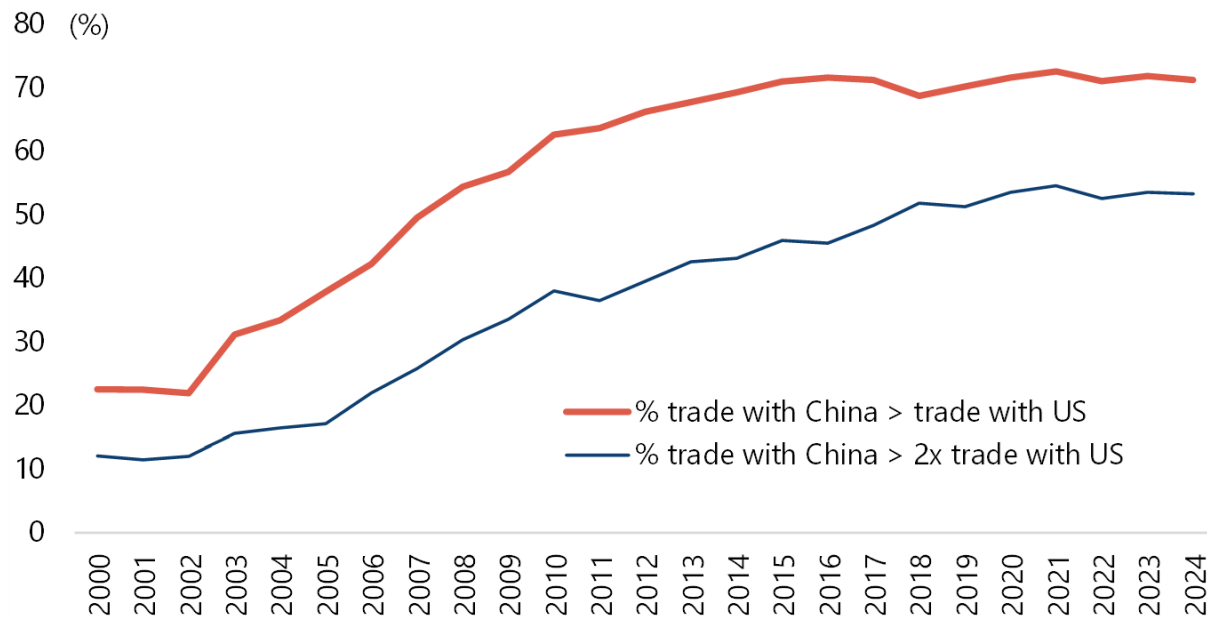
The housing market remains key to improve consumer sentiment. The recent softening in price data needs to be monitored





An important takeaway from Q2 is that the US seems to have realized that it doesn't have many levers to pull with China on the trade front. In addition to controlling key mineral supply chains, China is a bigger trading partners than the US for most countries.

Share of countries trading with China more than with the US



Note: Based on total trade with China/US. Source: IMF - International Trade in Goods by Partner Country (IMTS)

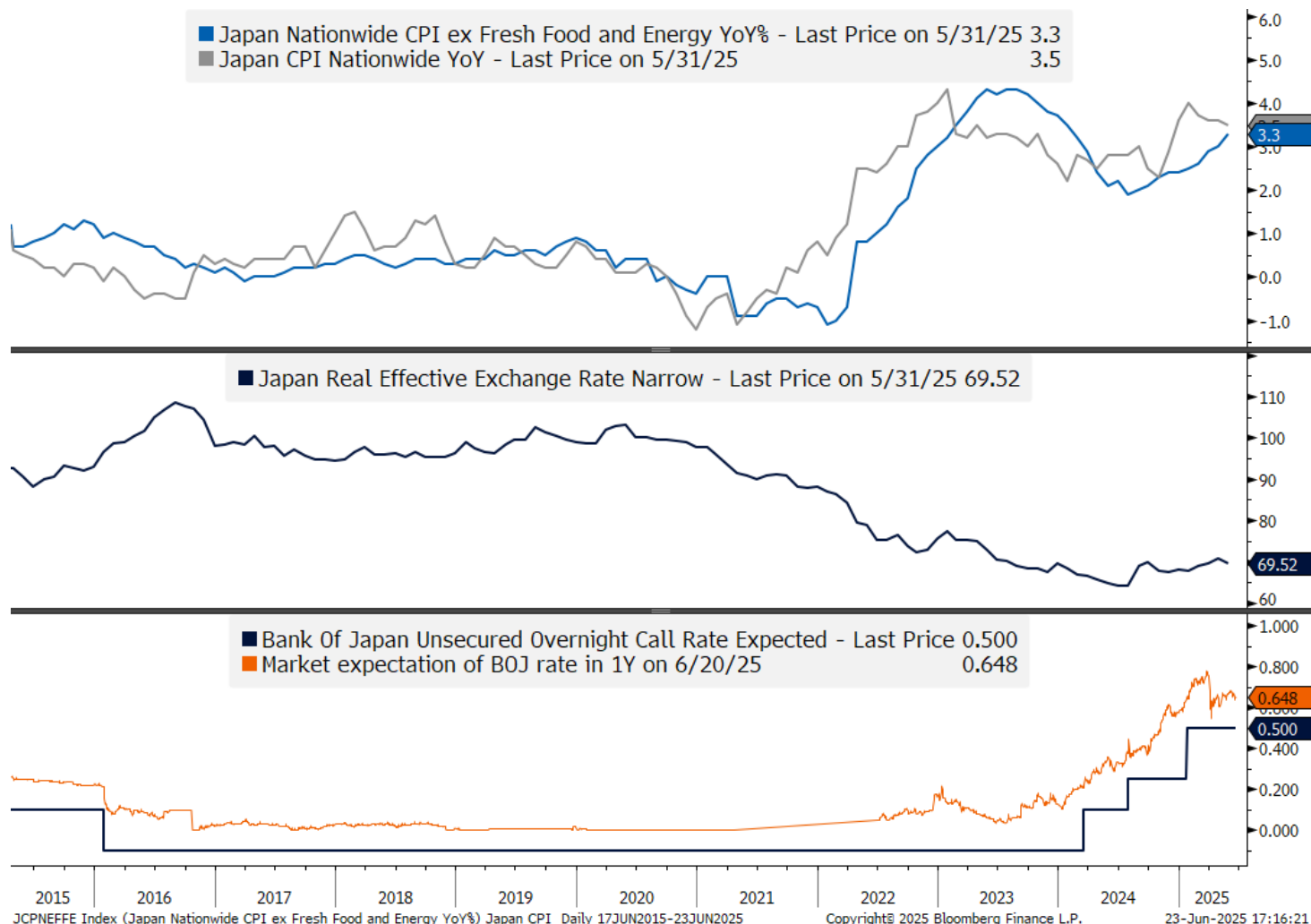


Chinese equities remain very attractive given the government's support, improving economy and likely peak in trade tensions.



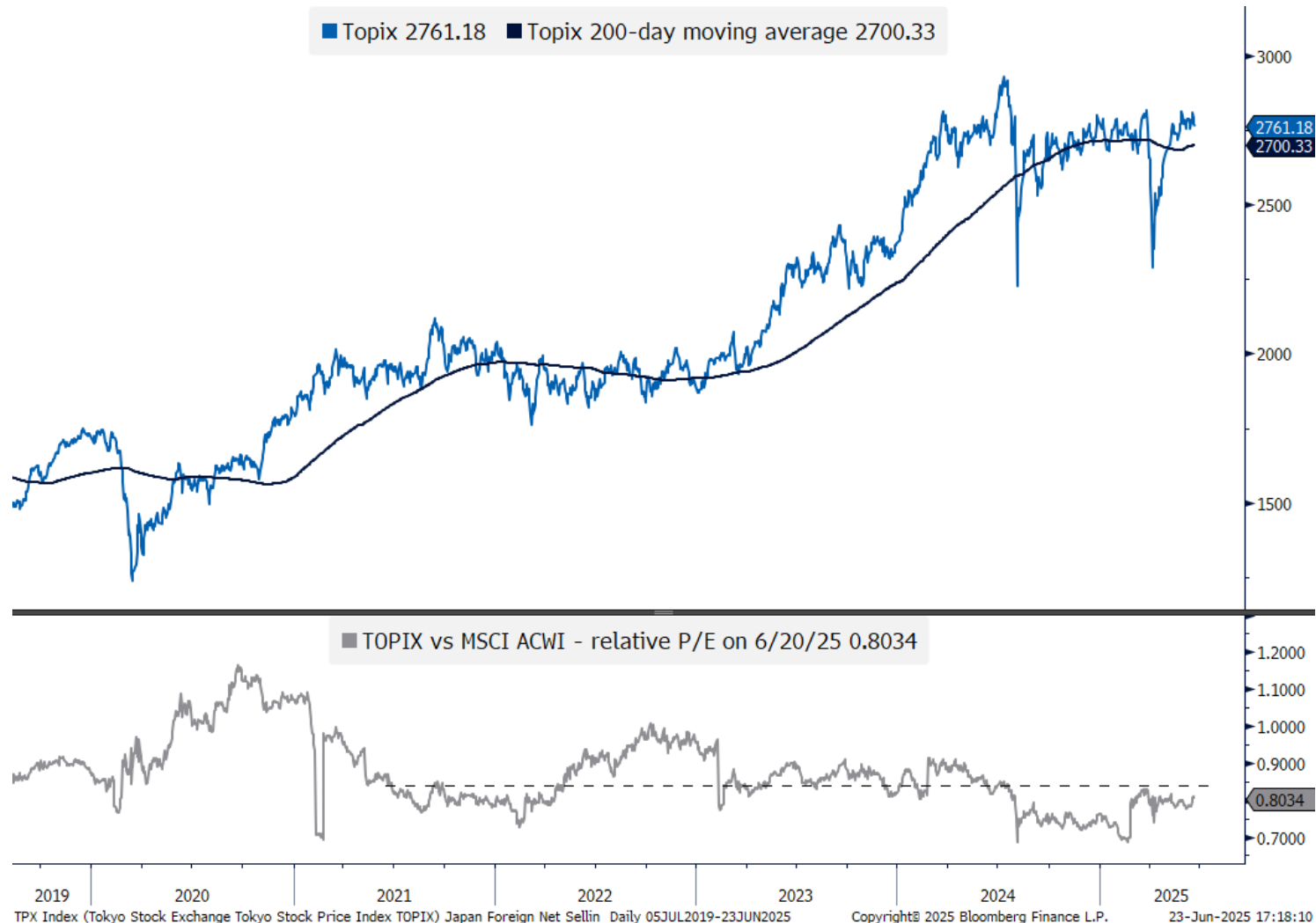


In Japan, the BOJ is delaying raising rates and keeping an overly loose policy. Markets still expect rate hikes by year end, and the JPY remains extremely cheap.



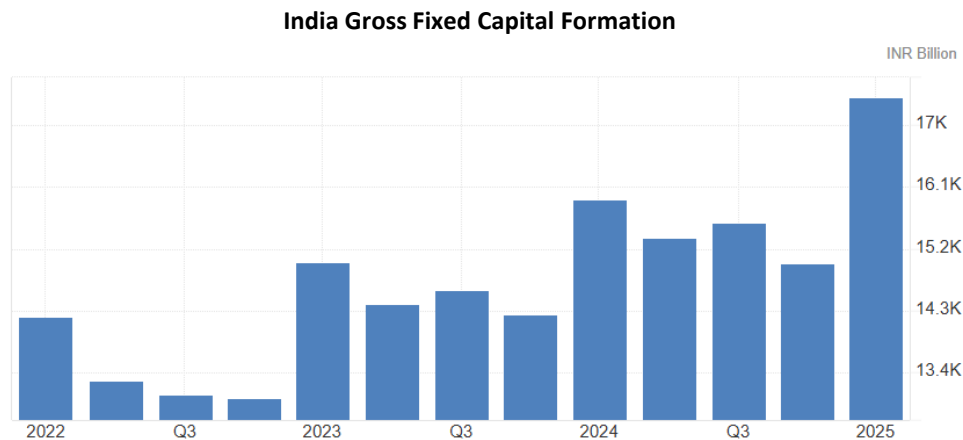
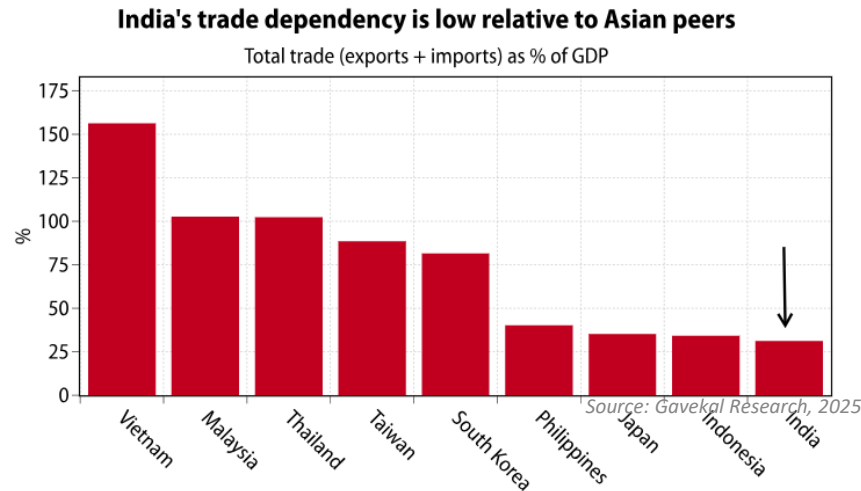


We remain neutral on Japanese equities and are waiting to see a resolution of the current consolidation. An upside resolution seems increasingly likely.





Low trade dependency and strong domestic growth driver support the Indian economy

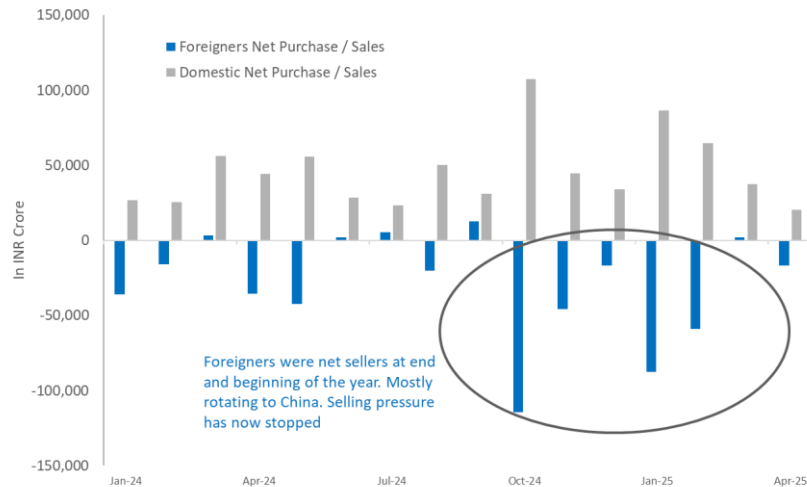


Source: Trading Economics

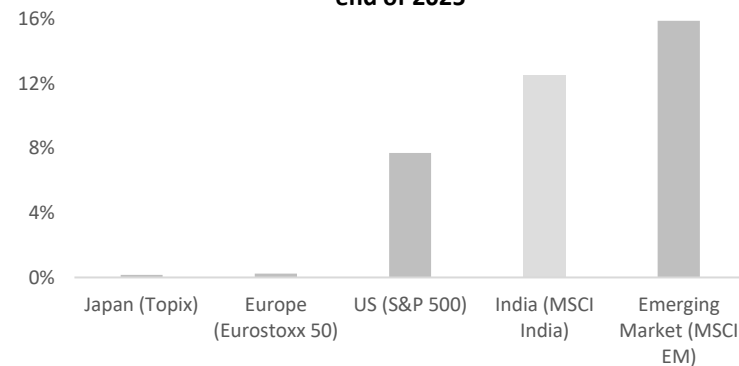


Indian equities remain attractive on the back of resilient domestic inflows, elevated profit growth and reasonable valuations

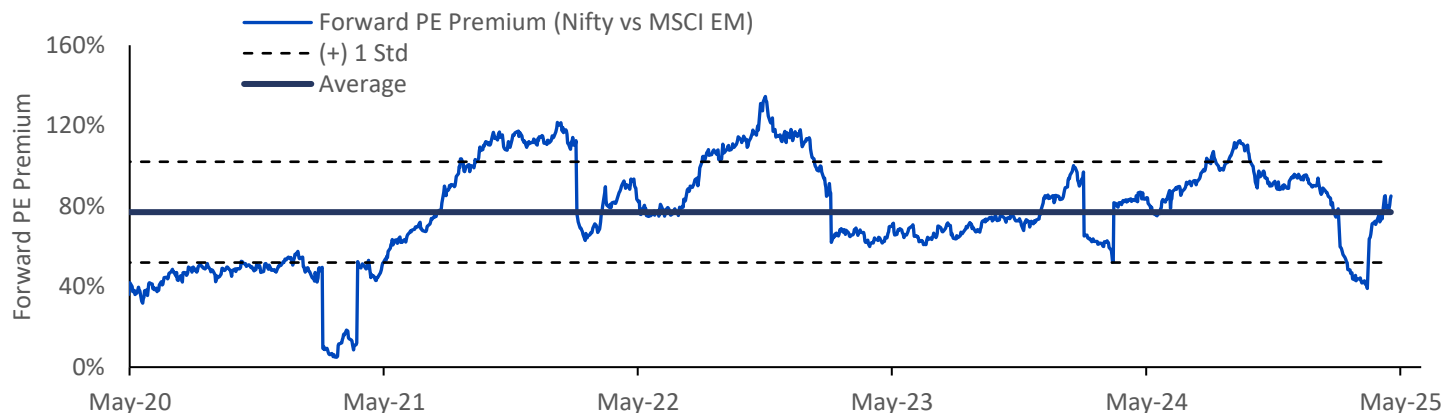
Foreign and domestic equity purchase / sales



Earning per share anticipated growth from now till end of 2025



Forward PE Premium Nifty vs MSCI EM



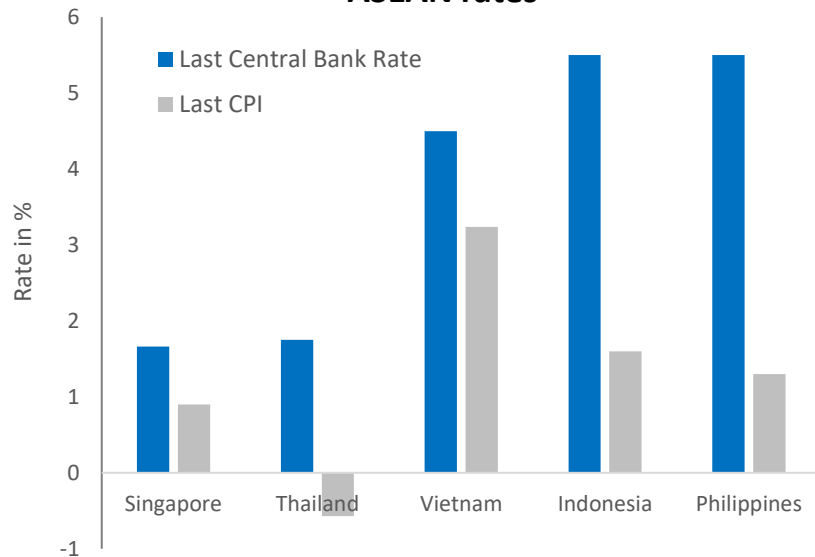


ASEAN - outlook

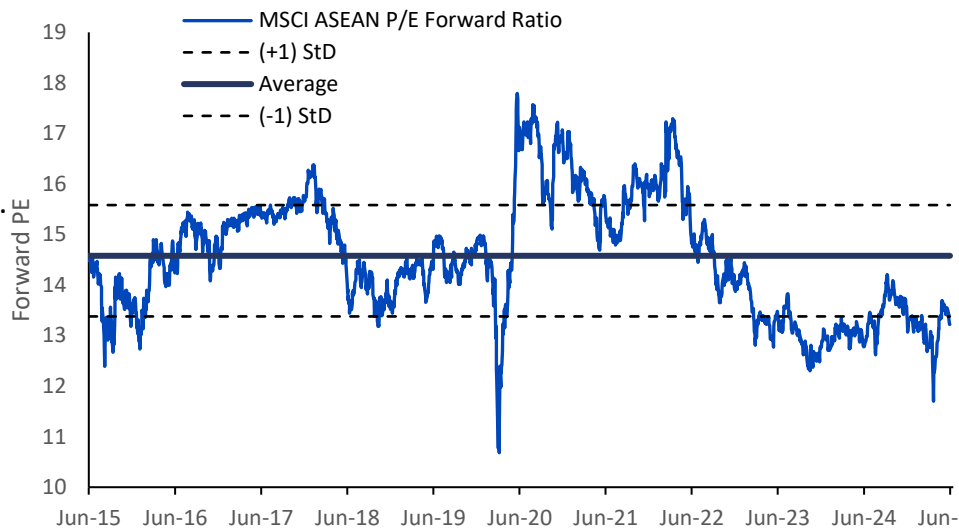
Catalysts going ahead:

- Inflation across ASEAN is normalizing (not sticky like US).
- Central Bank rates continue to go down.
- Loose monetary policies and above average growth should support the markets.
- ASEAN Index forward P/E's cheap.
- Some countries expect strong corporate growth.
- US tariffs: deals will be done with the US. All countries willing to negotiate. Expect 10% tariffs to US.

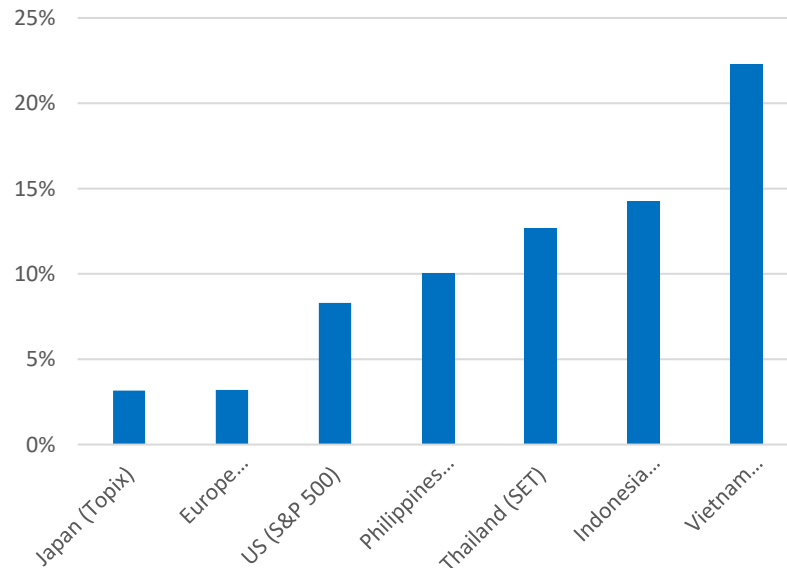
ASEAN rates



MSCI ASEAN PE Forward



12 months forward EPS growth



Source: Bloomberg

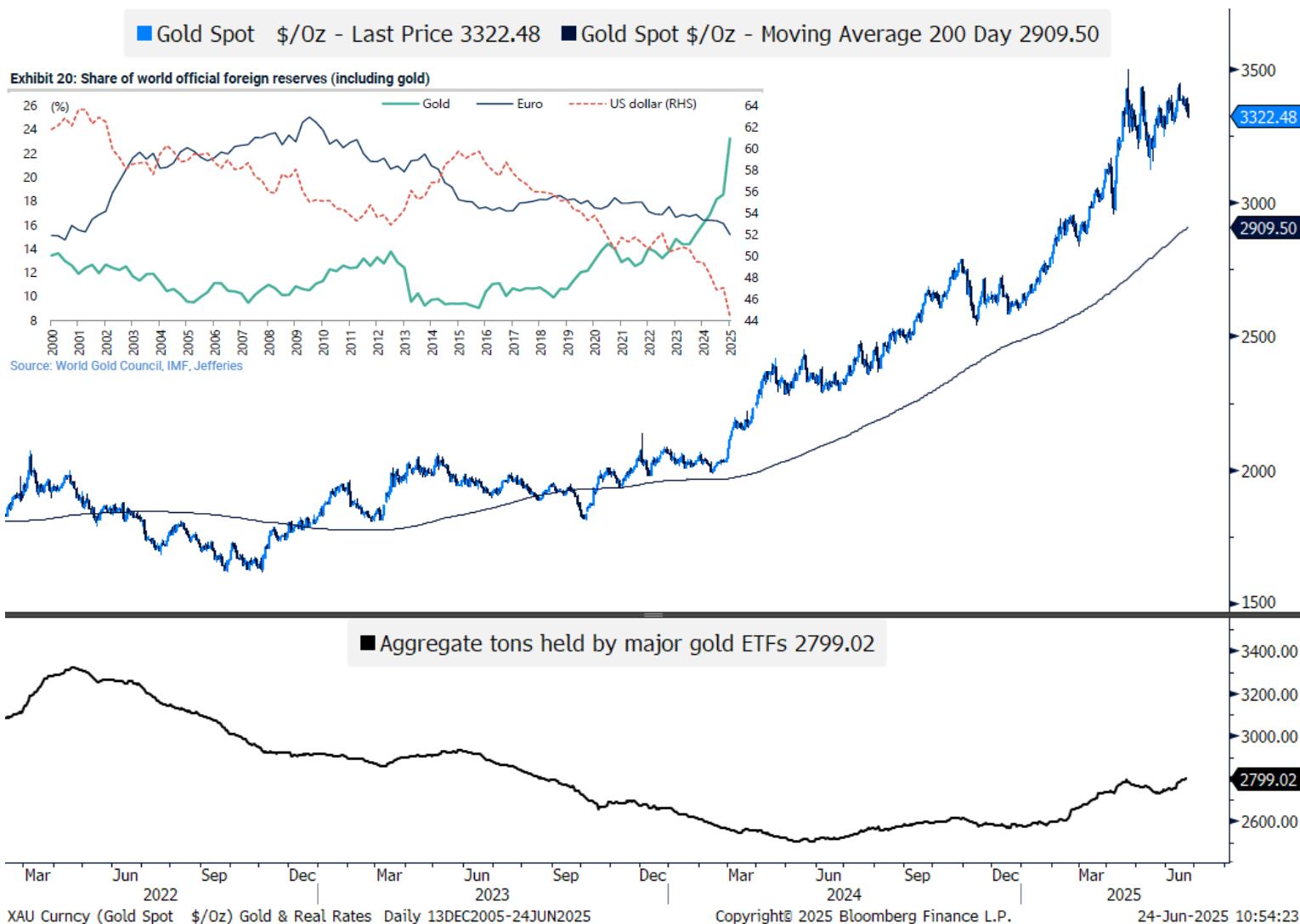


The recent OPEC+ push to raise production and gain market share was temporarily overwhelmed by geopolitical tensions; should they subside, low oil prices are likely. Holding commodities remains reasonable given risks of trade disruptions and sticky inflation.



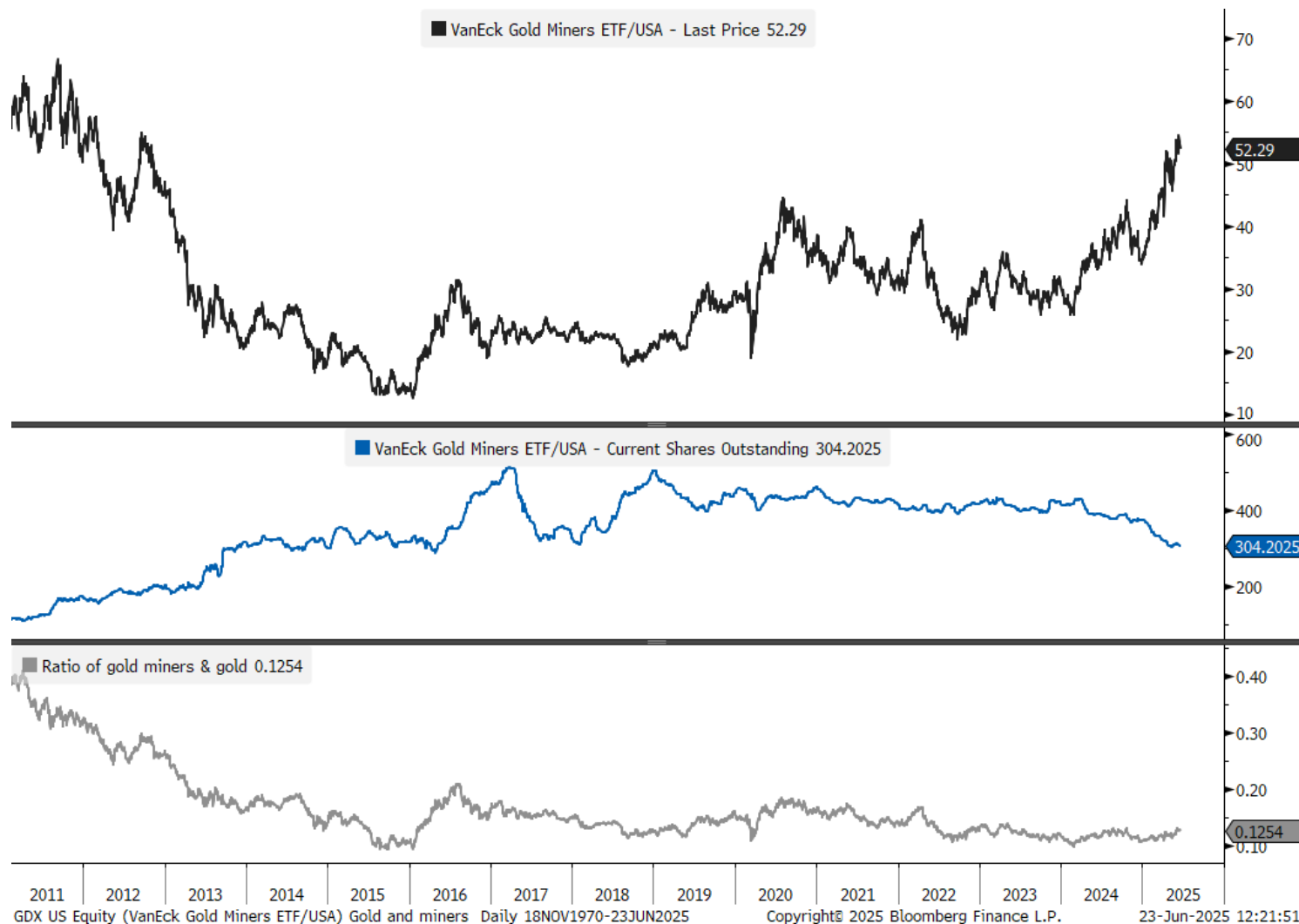


Gold is consolidating in a major bull market. There are still no signs of excessive participation by western investors.



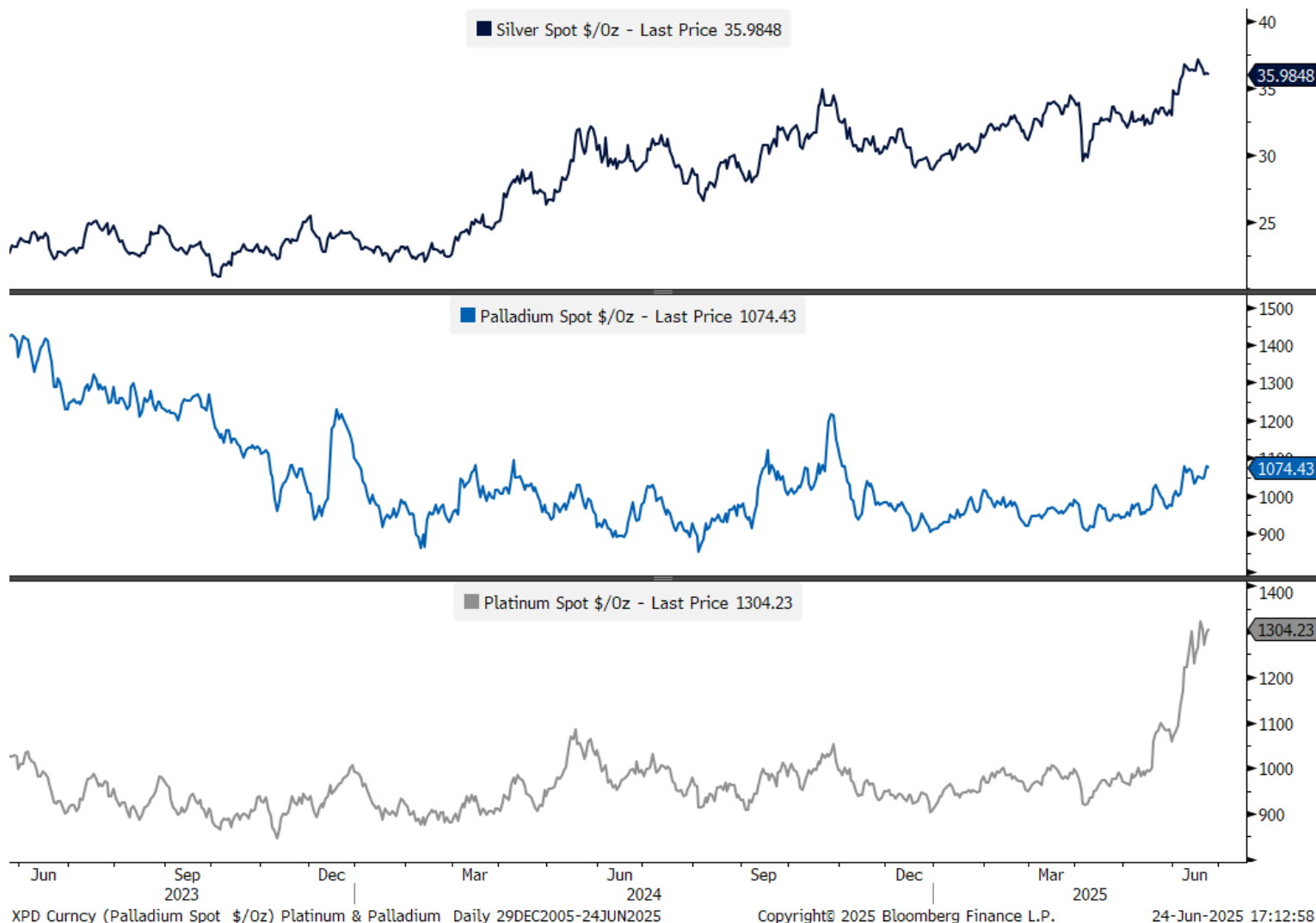


Gold miners remain dirt cheap relative to gold and still see limited interest from investors.





Other precious metals are also performing well this year, with solid fundamental cases for silver and Platinum Group Metals (PGMs).



Summary table of our views



Q3 2025 convictions table

		Least Attractive	Neutral	Most Attractive	Comments
Equity	US Equity	●			
	EU Equity			●	
	Swiss Equity		●	○	
	Japanese Equity		●		Stay long JPY
	Chinese Equity			●	
	Asian EM		●		favor India
Fixed Income	Cash & Short term debt			●	duration 3-4 years
	US Long term debt		●		
	EU long term debt	●			
	DM High Yield	●			
	EM Debt (Local)		○	●	for USD portfolios
	EM Debt (Hard)		●		
Alternatives	Precious Metals & Miners		●		USD 3100-3200 buyable
	Commodities			●	
	REITs (EU + CH)		●		
	Hedge Funds		●		Favor Long-short
	Private Markets		●		Favor buy-outs (evergreen)



Current View



Previous View

Forex					
EURUSD	EURCHF	EURGBP	USDCHF	USDJPY	USDGBP
↑	↑	↑	→	↓	→



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