Monthly Update | Issue 101 | 6 August 2025

*TACO: "Trump Always Chickens Out" - **WACO: "World Always Chickens Out"

Key takeaways

- After a nice run in financial markets, with the S&P 500 up over 20% since its 8 April lows, volatility has started to pick-up recently on the back of tariff uncertainty, a softer job market and still elevated geopolitical risks.
- However, the overall macro and liquidity conditions are rather positive for risk assets. The second quarter US earnings have been outperforming expectations so far, and our market dynamics indicators are flashing green both in the US and in Europe. Still, equity market valuations are rich, especially in developed markets and some risks are underpriced. This comes at a time when, historically, stocks face their most volatile season of the year.
- Overall, while we keep our preference for equities over bonds, we refrain to increase exposure at this stage. We keep our neutral / slightly positive stance on equities. We maintain a neutral view on most equity regions except for China and emerging markets equities on which we keep a slightly overweight stance.
- Within rates, we continue to favour the 1-10 years segment over long-dated bonds. We keep our gold and hedge funds exposure for diversification purposes. Our stance on currency—underweight dollar against euro and Swiss Franc—is unchanged.

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THE BIG PICTURE

Within a matter of weeks, we have moved from a TACO ("Trump Always Chickens Out") environment to a WACO ("World Always Chickens Out") one. Indeed, it seems that America's trading partners have largely failed to retaliate against President Trump's sweeping tariffs, allowing a president that's taunted for "always chickening out" to raise billions of dollars in extra customs revenues at little cost.

TACO has been rather positive to risk assets with the S&P 500 index gaining 20% since April. Will financial markets embrace WACO as well? Nothing is less certain. Indeed, we may experience volatility as markets need to digest the latest round of tariffs, a softer job market, and still elevated geopolitical risks. Meanwhile, equity market valuations are rich, especially in developed markets.

On the positive side, the overall macro and liquidity conditions are rather positive for risk assets.

We still see a robust economic growth picture in the US, although the incoming data is difficult to read because of ongoing tariff disputes and resulting biases in economic data. Barring any additional shock, we expect the US economy to keep dancing on thin ice for the rest of the year, despite the negative effects of the current trade disputes on growth and inflation, as well as the still elevated uncertainty. The latest US fiscal stimulus package should help balance the negative trade impact and prolong the solid domestic demand in the US.

We also see fiscal stimulus in Europe to support the recovery, particularly towards the end of the year and into 2026. However, the latest announcements about the framework for a trade deal between the US and the EU seems to be rather disappointing, although the effects on the EU economy should be digestible.

In China, fiscal spending is expected to support growth and offset the negative effects of the ongoing trade dispute with the US, which continues to weigh on investments and consumption in the country. The negative risks stemming from imbalances in the real estate and overcapacities in several industry sectors remain.

On the monetary policy side, the US Federal Reserve is still resisting mounting pressure to lower its key rates as the latest CPI print points to a punch through of the increased import tariffs, likely to grow over the next months. However, two recent developments seem to open the door to one, or possibly two, rate cuts in the latter part of 2025:

1. The July jobs report was on the weak side, indicating a total of 73,000 new jobs being added, well below estimates of 104,000. Perhaps most importantly, the last two months of data were revised sharply lower, subtracting about 260,000 jobs from the totals (!). This brings the average job gains of the last three months to 35,000, well below the 127,000 average of the three months prior;
2. Adriana Kugler, a voting member of the Federal Reserve, is resigning this week. President Donald Trump gets to appoint her replacement. This means that Fed Chair Powell will now have a third dissenting vote in September if he still doesn't want to cut.

These two developments led markets to readjust their expectations in terms of the number of rate cuts in 2025 to the upside, with well above two rate cuts now being priced in. On our side, we still see one rate cut as the base case with an increasing probability of another rate cut this year.

On the contrary, the ECB and the SNB appear to be (almost) nearing the end of their cutting cycles, with Eurozone inflation back to target and the SNB expecting Swiss inflation to edge slightly higher than zero in the remainder of the year.

Our main macro risks are still a potential eruption of a tit-for-tat in the trade dispute with the US, an unexpected downturn in economic activity due to geopolitical escalations or an energy crisis that could lead to a new inflation surge.

Another positive for equity markets is the resilience of US earnings and market dynamics (more details in the next section).

THE WEIGHT OF THE EVIDENCE

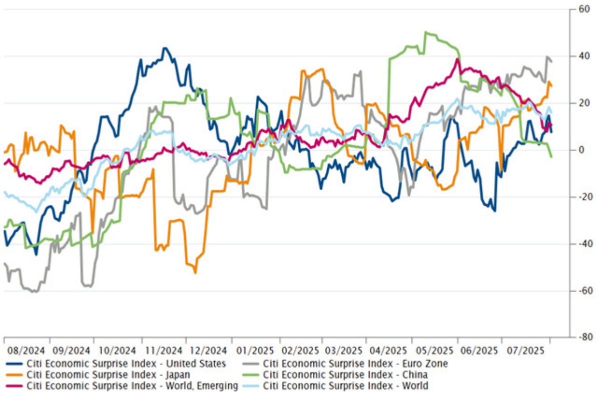
Our asset allocation preferences are based on 5 indicators, including 4 macro and fundamental indicators (leading) and 1 market dynamics (coincident). The weight of the evidence suggests maintaining a constructive view on equities (neutral / positive). Below we review the main drivers for each of them.

Pillar 1

Macro cycle (NEUTRAL)

Global growth remains below historical average, but as long as no additional shock will occur, we expect the global economy to withstand the many elevated uncertainties, including tariffs, energy, geopolitics, and fiscal policy.

Overall, economic surprises in major countries/regions remained on positive levels – except China.



Source: SYZ AM, FactSet Research Systems

In the United States, economic data shows a generally solid picture of the current growth environment. Despite the data, real-time economic indicators point to a slow-moving decline in economic activity for the remainder of the year, while additional fiscal support should help to impede a sudden drop in demand. However, several downside risks prevail, such as tariffs, energy prices, debt burden for households and the government.

In the Eurozone, we expect economic growth to recover but to remain weak for the remainder of the year, as US tariffs, the euro status, and elevated energy prices dampen confidence plus the war in the Ukraine still ongoing. Fiscal stimulus should help to spur growth towards the end of the year and in 2026.

In Switzerland, we anticipate a stabilisation at a modest pace, supported by low rates, though short-term headwinds persist due to a strong franc and global trade uncertainties.

Meanwhile in China, the tariff impact is expected to be balanced out by fiscal support, but overcapacities and real estate imbalances are weakening consumer and business sentiment.

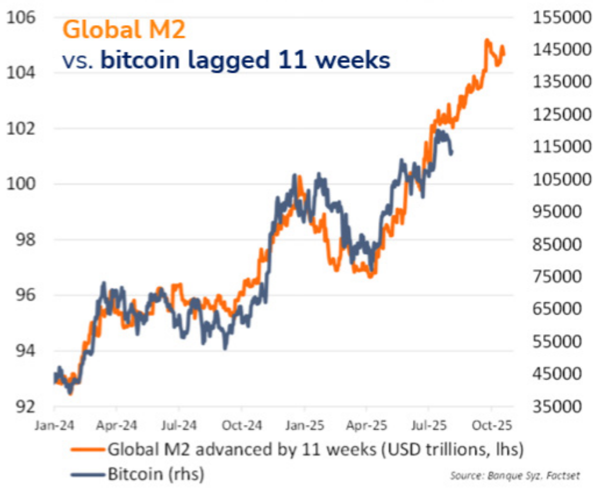
Recent inflation data in the US reflect the anticipated impact of tariffs, while the stop-and-go pattern of orders around tariff deadlines is likely to create a noisy and erratic inflation picture. Greater clarity on final tariff levels would help improve visibility on the outlook. In the UK, inflationary pressures remain persistent, whereas in the Eurozone, we maintain our relaxed inflation outlook.

Pillar 2

Liquidity (POSITIVE based on forward-looking factors)

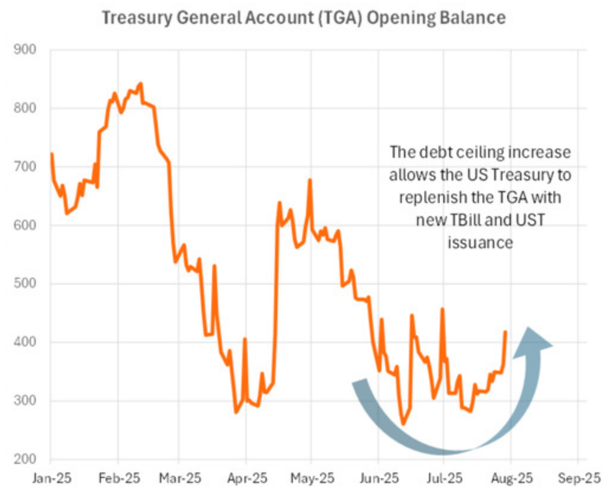
Monetary policy remains restrictive in the US and the UK, but no longer in continental Europe: the ECB is close to or even at the end of its cutting cycle, while the SNB hit the bottom (at zero), bearing any strong FX and energy price developments. The Fed is still in a “wait-and-see” mode for more visibility on the tariff impacts, as economic activity and the labour market remains solid. US-inflation faces upside risks that limit the Fed’s room for manoeuvre. Similarly, the BoE, which has also room to cut rates, but faces meagre growth but upward inflation dynamics.

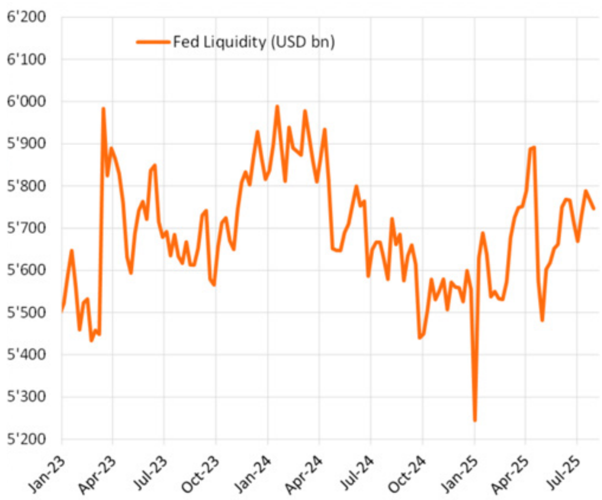
Against this backdrop, our global liquidity proxy continues to point to a supportive liquidity environment for risk assets, in the months ahead. According to the tight relationship displayed on the chart below, a brief summer pause in the upward trend was to be expected. Provided the relationship continues to hold, the upward trend in risk assets could be expected to resume in the coming weeks. Looking ahead, the US dollar will be decisive for the evolution of our Global M2 proxy.



Fed liquidity is also still supportive for the time being, but it is becoming a temporary headwind now that the debt ceiling has been lifted. The increase in the US debt ceiling (by $5 trillion), acted in the “One Big Beautiful Bill Act” allows the US Treasury to catch up on bond and bill issuance. The Treasury General Account at the Fed is being replenished after the drop since the beginning of the year, exerting a de facto temporary withdrawal of liquidity from markets.

Overall liquidity conditions remain favourable for risk assets but could, in the coming months, become less supportive than they have been recently.





Pillar 3

Earnings (POSITIVE)

We are in the middle of the earnings season in the US, and the overall picture is rather constructive.

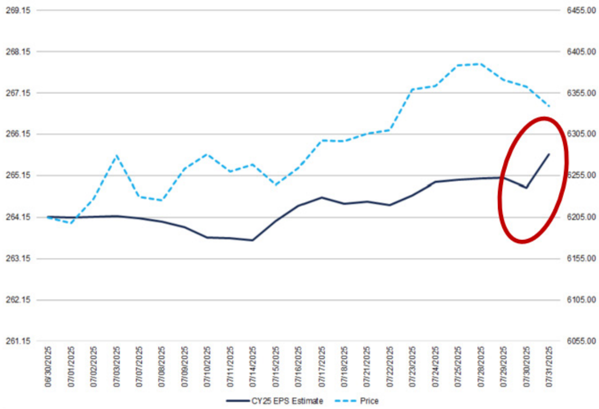
Earnings scorecard: For Q2 2025 (with 66% of S&P 500 companies reporting actual results), 82% of S&P 500 companies have reported a positive EPS surprise and 79% of S&P 500 companies have reported a positive revenue surprise.

Earnings growth: For Q2 2025, the blended (year-over-year) earnings growth rate for the S&P 500 is 10.3%.

Earnings revisions: On June 30, the estimated (year-over-year) earnings growth rate for the S&P 500 for Q2 2025 was 4.9%. Nine sectors are reporting higher earnings today (compared to June 30) due to positive EPS surprises.

Earnings guidance: For Q3 2025, 30 S&P 500 companies have issued negative EPS guidance, and 27 S&P 500 companies have issued positive EPS guidance.

S&P 500 CY25 Bottom-Up EPS: Jun 30 - Jul 31
(Source: FactSet)



Source: Factset

Markets are also starting to look at 2026 estimates— a year marked for double-digit growth for S&P 500 earnings.

Admittedly, the earnings season is not as positive for EU companies, which are suffering from the strength of the euro. The silver lining comes from 2026 which is also expected to be a year of double-digit earnings growth for Stoxx 600 index companies.

Pillar 4

Valuations (NEUTRAL)

As shown on the table below, US equity valuations are getting extended.

Exhibit 36: S&P 500 sector P/E valuations relative to history

	Consensus forward 12-month P/E valuation				
		Absolute P/E		P/E vs. S&P 500	
	Current	%ile rank vs. history		%ile rank vs. history	
	P/E	10-year	30-year	10-year	30-year
Information Technology	30x	95%	85%	89%	63%
Consumer Discretionary	29	74	91	38	76
Industrials	25	92	97	93	96
S&P 500	**22**	**87**	**93**		
Consumer Staples	21	82	80	12	9
Communication Services	20	66	65	14	5
Materials	20	75	84	21	16
Utilities	19	84	95	61	65
Real Estate	17	21	46	4	16
Financials	16	71	85	8	9
Health Care	16	36	32	0	0
Energy	15	44	63	39	20

Source: Compustat, FactSet, IBES, Goldman Sachs Global Investment Research

On the international side, equities are not as expensive as the US. The MSCI World trades on 17x next 12-months earnings estimates, EuroStoxx 50 on 15.8x and MSCI Emerging Markets at 15x.

Note that most markets are expensive versus bonds.

Overall, we remain neutral on valuations at this stage.

Pillar 5

Market Dynamics (POSITIVE)

Overall, our market dynamics remain favourably positioned, whether in the US or Europe.

Both market breadth and investor sentiment in Europe were downgraded to neutral last week. The number of European stocks trading above their 200-day moving average fell below the trigger threshold.

04.08.2025

Indicator	USA	Europe
Trend	POSITIVE	POSITIVE
Technicals	POSITIVE	NEGATIVE
Market Breadth	POSITIVE	NEUTRAL
Sentiment	POSITIVE	NEUTRAL
Volume	POSITIVE	POSITIVE
Aggregate	POSITIVE	POSITIVE

Indicators review summary - our five pillars

With 3 pillars (liquidity, earnings and market factors) signalling an overweight and 2 in neutral (macro, earnings and valuations), the weight of evidence is neutral to positive for equities.

Underweight -	Neutral =	Overweight +
	Macro Cycle	
		Liquidity
		Earnings Growth
	Valuations	
		Market Factors

TACTICAL ASSET ALLOCATION (TAA) DECISIONS

Positive market effects have pushed the equity allocation slightly above neutral in the TAA grids. However, we maintain our neutral / slightly overweight stance in the asset allocation grid at this stage as we expect volatility to stay elevated in the weeks ahead.

We keep a neutral view on most equity regions except for China and emerging markets equities on which we keep a slightly overweight stance. Emerging market equities are attractive due to their faster growth prospects, cheaper valuations, supportive monetary conditions, structural reforms, strong sectoral growth—especially in Chinese technology—easing trade tensions, and diversification benefits—all of which underpin a positive fundamental outlook for these markets in 2025 and beyond.

Within rates, we continue to favour the 1-10 years segment over long-dated bonds. We keep our gold and hedge funds exposure for diversification purposes.

In forex, we stay underweight dollar versus euro and Swiss franc as we expect more dollar weakness ahead, while Swiss fundamentals remain strong. The unpredictability and erratic policies of the US administration, particularly under President Trump, have left investors unsettled, prompting them to move funds out of the dollar.

ASSET ALLOCATION GRID - TACTICAL ASSET ALLOCATION (TAA) – 25.6.2025

	Underweight -	Neutral =	Overweight +
Asset Classes		Cash	
		Equities	
		Fixed Income	
		Alternatives	
Fixed Income			Govies 1-10 (local)
	Govies 10+ (EUR)	Govies 10+ (USD, CHF, GBP)	
		Corporate IG (local)	
		High Yield (local / global hdg)	
		EM Debt	
Equity		United States	
		Eurozone	
		UK	
		Switzerland	
		Japan	
			Emerging Markets
Alternatives		Hedge Funds	
Commodities			Gold
		Commodities	
Forex (vs. USD)			EUR
			CHF
		GBP	
		JPY	
		EM Currencies	

INVESTMENT CONCLUSIONS

After a nice run in financial markets, with the S&P 500 up over 20% since its April lows, we may experience volatility as markets digest higher tariffs, a softer job market, and still elevated geopolitical risks.

On the positive side, as we are amid Q2 earning season, 80% of companies have beaten earnings expectations – which means corporate earnings growth remains on track to be positive this year.

In addition, we expect the Federal Reserve to cut interest rates this year, and the new tax bill to kick in starting in 2026—both of which should support the market sentiment, in our view.

In this context, we keep a neutral / moderately positive stance on equities and keep a high level of diversification across portfolios. We might use pullbacks to add quality investments at better prices.

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