



As summer
winds down,
will momentum
cool down?

Source: iStock/PictureReflex

Key takeaways

- With summer coming to an end, equity markets remain well-supported, underpinned by AI-driven investment, resilient corporate earnings, and expectations for a more accommodative Fed policy stance. On balance, we continue to see a constructive 12-month outlook for risk assets.
- That said, we would caution against extrapolating recent stability too far. Seasonality argues for near-term caution, as September and October have historically delivered higher volatility and below-trend returns. We expect market swings to remain elevated in the weeks ahead, even within an otherwise supportive medium-term backdrop.
- Encouragingly, these seasonal headwinds have historically proven transitory, with equities often staging a strong rebound in subsequent months. This pattern reinforces the case for maintaining portfolio discipline and calibrating return expectations following the recent period of robust gains.
- We still recommend a moderately positive stance on global equities. Within US stocks, focus should be on large-caps stocks. We maintain a neutral view on most equity regions except for China on which we keep a slightly overweight stance. Within rates, we are downgrading government bonds 1-10 year from overweight to neutral as we fear more yield curve steepening could take place. Within alternatives/commodities, we keep our gold and hedge funds exposure for diversification purposes. In forex, we upgrade our view on the dollar – versus euro and Swiss franc– from underweight to neutral.

THE BIG PICTURE

August proved to be a dynamic month for markets, characterised by shifting narratives. It kicked off with a risk-off environment following the August 1 tariff deadline, only to be followed by a softer-than-expected US jobs report, reviving slowdown fears. However, sentiment quickly rebounded. The S&P 500 notched its fourth straight monthly gain, largely powered by a dovish turn from Fed Chair Powell at Jackson Hole, which heightened expectations for a rate cut in September. Still, headwinds were present: concern over the Fed's independence contributed to rising inflation expectations and steeper yield curves.

In Europe, heightened political uncertainty in France, prompted by an impending confidence vote, sparked renewed scrutiny of sovereign risk, pushing French 10-year yields uncomfortably close to those of Italy, a situation not seen since 2003.

Over the month, China equities outperformed Japan, US and Europe. China's CSI 300 index has surged 14.3% in 2025, outperforming most developed equities benchmarks, driven largely by domestic investors, even as foreign funds remain cautious. Within US equities, the Nasdaq was the month's laggard while small caps were the best performers.

Within fixed income, August saw yields broadly lower with the short end significantly outperforming, leading to further steepening of the yield curve. Corporate bonds recorded decent gains as credit spreads have rarely been this tight.

The dollar was down in August (its 7th month lower of the last 8), sparked mostly by the poor payrolls print to start the month. For the last 3 weeks, it has been stuck around the 50 day moving average.

On the commodities side, after trading rangebound for the last three months, gold surged to a new record, closing high in August. Foreign central banks now officially hold more gold than US Treasuries, for the first time since 1996. Silver hits its highest closing price in almost 14 years. After three months of gains, oil prices fell in August. WTI oil prices have been consolidating around \$63-\$65.

After four straight monthly gains, bitcoin suffered its worst month since February, down 7% on the month after touching new record highs intra-month.

The market's summer rally has been impressive, but autumn tends to test investor resolve. Indeed, the next two months are seasonally challenging for equities, often marked by wider daily swings and softer returns. So, what's next for risk assets?

Global Stocks Typically Fall in September



THE WEIGHT OF THE EVIDENCE

Our asset allocation preferences are based on 5 indicators, including 4 macro and fundamental indicators (leading) and 1 based on 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)

The latest data on global economic activity suggest that the world economy is set to stabilise on low levels (below historical average). We expect global growth to stabilise further after trade uncertainties started to subside because more bilateral tariff figures for imports into the US have been revealed and enacted. This holds as long as no additional shock will occur, as uncertainty about tariffs, geopolitics, and fiscal policy remains elevated.

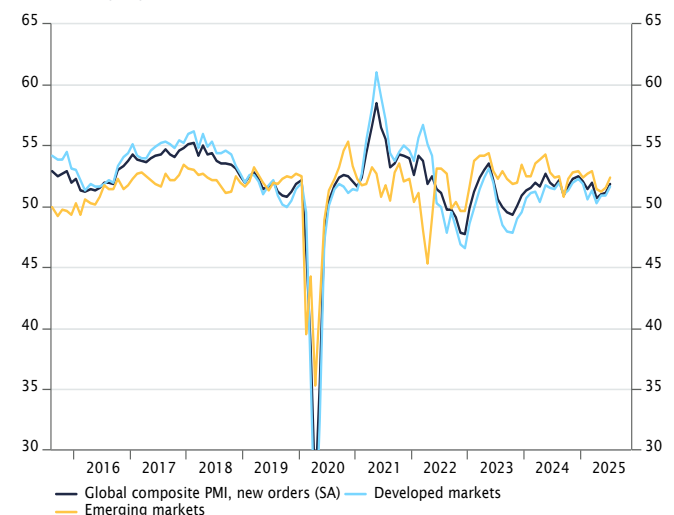
In the United States, economic data shows a solid picture of the current growth environment. Additional fiscal support should help to impede a sudden drop in demand and to balance out the weakening of the labour market. Several downside risks prevail, such as tariffs, energy prices, debt burden for both households and the government. In the latest set of data, also inflationary risks are present in the form of underlying price pressures, which could become worrisome for the US central bank.

In the Eurozone, US tariffs, the euro strength, and still elevated energy prices will dampen the anticipated economic recovery. Consumer confidence, which remains weak, is being further weighed down by the ongoing war in the Ukraine. Fiscal stimulus should help spur growth towards the end of the year and in 2026.

In Switzerland, the massive new tariffs on US-imports imposed on 7 August hamper the outlook and will likely lead to a temporary growth contraction in the short-term, further exacerbated by the strong Swiss franc and the ongoing global trade uncertainties. We then expect afterwards a stabilisation and a modest recovery, supported by low rates, and fading trade uncertainties in 2026.

In China, we expect most of the negative tariff impact to be balanced out by additional fiscal support, which should help keep growth on a solid level. Yet, consumer and business sentiment will likely remain weak due to over-capacities and real estate imbalances.

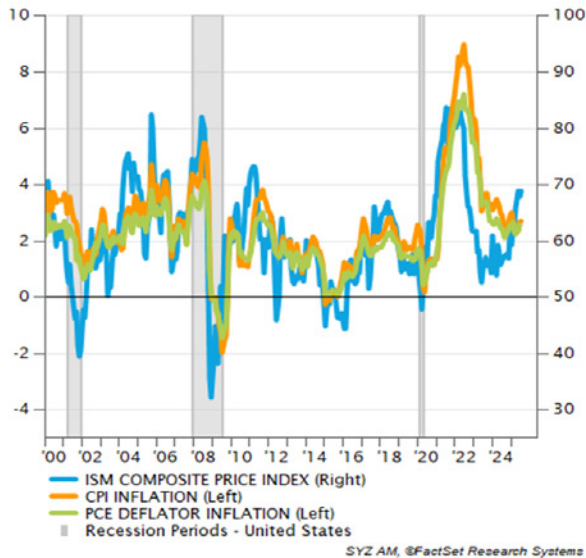
Global economic activity seems to stabilise for Developed and Emerging markets



SYZ AM, ©FactSet Research Systems

Recent inflation data in the US confirmed the anticipated pass-through of tariffs but also revealed underlying pressure in the domestic services sector. This could start to worry the US Federal Reserve in the months to come. The stop-and-go pattern of orders around tariff deadlines is likely to create a noisy and erratic goods inflation picture. Greater clarity on final tariff levels will help to improve visibility on the outlook while most firms said to now start to pass on more of their tariff induced input price increases to consumers. In the UK, inflationary pressures remain persistent and a headache for the Bank of England, whereas in the Eurozone, we maintain our relaxed inflation outlook.

The ISM price index – among others – points to rising price pressures in the US



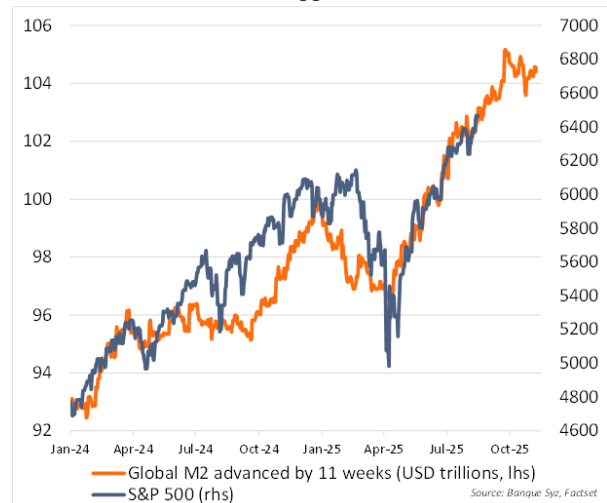
Pillar 2

Liquidity (POSITIVE based on forward-looking factors)

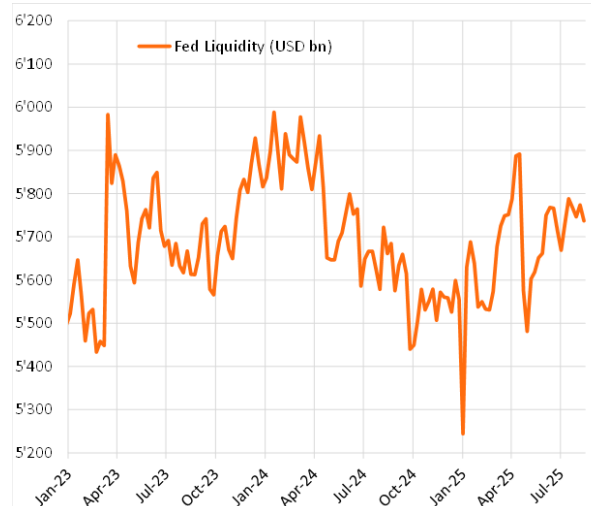
In continental Europe, we expect the ECB to stop its cutting cycle, barring any new negative shock, while the Swiss National Bank hit the “zero” bottom. We expect the SNB to try and avoid pushing its policy rate into negative territories, bearing any strong FX developments and any harsher negative effects on growth from the imposed US tariffs. The Fed seems to open the discussion for a further relaxation of its monetary policy as it is, other than the Bank of England –the major central bank that still keeps its policy rate in restrictive territory. Apart from the current pressure by the US government to lower rates, we still see upside risks to the US inflation which would constrain the Fed’s room for manoeuvre, as long as the US labour market does not weaken further and economic activity stays robust. The situation is similar with the BoE, which also has scope for interest rate cuts but faces the dilemma of promoting economic activity after weak growth on the one hand and curbing the continuing upward pressure on prices on the other.

In view of this background, our global liquidity proxy continues to point to a supportive liquidity environment for risk assets, which, however, is losing steam. The forward-looking indicator started to move sideways, indicating no additional tailwind to liquidity. Provided the relationship continues to hold, the support for risk assets will start to abate in the coming months. However, the weak US dollar was decisive for the evolution of our global M2 proxy, and any stabilisation or upcoming appreciation would become a headwind to our indicator. Fed liquidity is becoming a temporary headwind now that the debt ceiling has been lifted. The increase in the US debt ceiling by \$5 trillion, enacted 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 “plundering” since the beginning of the year, exerting a de facto temporary withdrawal of liquidity from markets. Overall liquidity conditions continue to be favourable for risk assets. However, these conditions are expected to become less supportive than they were in recent months.

Global M2 versus S&P 500 lagged 11 weeks



Liquidity indicator for the US Federal Reserve



Pillar 3

Earnings (POSITIVE)

In the second quarter's earnings season, the results for both US and Europe showed a clear contrast. The US corporate sector performed strongly, with companies reporting an 11% growth in earnings, far exceeding the initial prediction of 4%. Guidance for the second half of the year was also positive. A remarkable 84% of companies beat their earnings expectations, a significant improvement over the five-year average of 78%. This positive trend was largely driven by large companies, particularly those in the technology sector. Conversely, European companies struggled. Weaker economic activity, the strong euro, and tariff uncertainties put pressure on profits. Earnings for 2025 are now expected to shrink by 1% year-over-year. Only about half of the companies beat earnings expectations, which is below the five-year average of 54%. Many well-known blue-chip companies like ASML, Novo Nordisk, LVMH, Hermès, and Nestlé posted disappointing earnings, weighing down market performance. Only the banking, travel, and leisure sectors performed well, while a potential German economic stimulus has yet to materialise.

Moving forward, the outlook for the rest of the year shows a clear divide between different regions. US corporate earnings are expected to grow by a strong 11% in 2025, and this positive trend has been reinforced by upward revisions since the start of the second-quarter earnings season. In contrast, European stocks are still facing weak growth and earnings are expected to shrink by 1.1% this year. While earnings revisions have been very negative for a while, there are signs of stabilisation as the value of the US dollar against the Euro is evening out. Elsewhere in the world, China is projected to have very modest growth of 2.2%, while emerging markets and Japan are experiencing healthy growth.

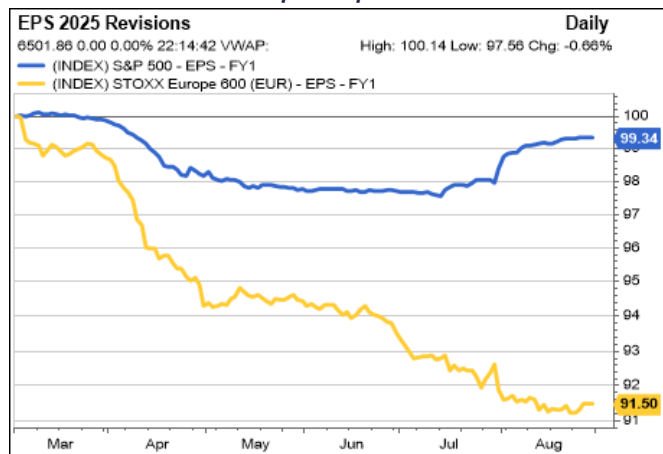
Looking ahead to 2026, the consensus is that growth will become more widespread. More regions and sectors are expected to see high single-digit or double-digit growth. Europe is anticipated to have a cyclical recovery in earnings, while in the US, more sectors are forecasted to see accelerated growth.

Earnings growth is in favour of the US this year while Europe is expected to recover next year:

Regions	2024	2025	Gr yoy	1m Chg (ppt)	2026	Gr yoy	1m Chg (ppt)
S&P 500	239.9	266.8	11.2%	1.5	301.7	13.1%	0.6
STOXX Europe 600	35.2	34.8	-0.9%	0.4	39.4	13.1%	0.4
iShares MSCI China ETF	4.3	4.5	2.6%	-0.3	5.0	12.1%	0.3
iShares MSCI Emerging Market	3.0	3.5	13.7%	-0.9	3.9	13.0%	-1.0
iShares MSCI Japan ETF	4.5	4.7	4.0%	0.1	5.1	9.6%	-0.2

Source: Factset

Earnings revisions for 2025 have had a very different path between US and European equities



While the outlook is positive for risky assets, we know that earnings forecasts for 2026 will likely face negative revisions, as is common when looking so far ahead. One key thing to watch is the pace of investment in AI. AI-related spending is currently massive and has only been revised upward recently, with major companies like Amazon, Microsoft, Google, and Oracle investing heavily. However, this pace will eventually slow, and the implications could be significant. For this reason, we will continue to closely monitor the capital expenditure trends of these large corporations and any signs of changes.

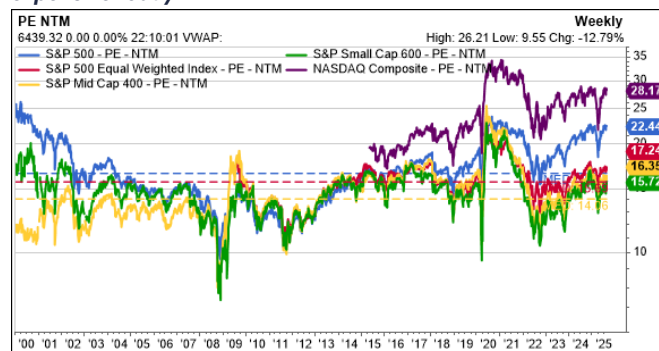
Pillar 4

Valuations (NEUTRAL)

Equity valuations for large US companies are still quite high. Although international stocks are more reasonably priced, the extra return investors get for taking on the risk of owning stocks –the equity risk premium– is low everywhere.

We know that a decline in the value of money tends to support stocks as an asset class. However, some parts of the market have very little room for error. This situation reinforces the importance of keeping a well-diversified portfolio and helps explain why we're seeing some shifts in the equity market right now.

US tech-heavy index such as the Nasdaq (purple) is expensive today:



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 indicators remain favourably positioned, both in the US and in Europe, with a preference for the US.

During the period from 7-21 August, all tracked indicators for the US moved into positive territory – a rather rare configuration – which we have not seen since September 2024.

On 22 August, the US bull-bear balance declined, reflecting an increase in bearish positions relative to bullish, and resulting into a downgrade to neutral of our investor sentiment score.

In Europe, the raw score, although still in positive territory, remains lower than in the US. Both market breadth and technical indicators in Europe were downgraded to neutral, reflecting lower market participation and weaker market momentum.

Indicator	USA	Europe
Trend	POSITIVE	POSITIVE
Technicals	POSITIVE	NEUTRAL
Market Breadth	POSITIVE	NEUTRAL
Sentiment	NEUTRAL	POSITIVE
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 are taking some profits on emerging markets equities. We keep a neutral view on most equity regions except for China on which we keep a slightly overweight stance.

Beijing has signalled a shift toward growth stabilisation after prioritising deleveraging and regulation in recent years. Fiscal stimulus (infrastructure, housing support) and monetary easing (rate cuts, liquidity injections) could bolster earnings. Potential for more targeted support for property, technology, and consumer sectors. Household savings are high (~\$17 trillion in bank deposits). If confidence recovers, there's large pent-up demand. While US-China tensions remain, markets may have already priced in significant geopolitical risk. If relations stabilise or modestly improve (e.g., trade, investment flows), equities could re-rate. Chinese equities (particularly in Hong Kong and A-shares) trade at a steep discount to US and global peers. Price-to-earnings multiples are compressed after years of under-performance, creating room for re-rating if sentiment improves.

Within rates, we implemented some rebalancing. We are downgrading government bonds 1-10 year from overweight to neutral as we fear more yield curve steepening could take place. For Swiss profiles reduce further government bonds 1-10 from neutral to underweight.

We also rebalance our exposure to Corporate Investment Grade and Emerging Markets Debt, which implies a small increase in the allocation within the grid.

Within alternatives/commodities, we keep our gold and hedge funds exposure for diversification purposes.

In forex, we upgrade our view on the dollar (versus euro and Swiss Franc) from underweight to neutral. Our reasoning is the following:

1. The Fed might be less dovish than the market anticipates
2. Fiscal and political issues in Europe could create headwind for the euro and thus boost the demand for the greenback
3. From a technical perspective, it seems that the dollar is bottoming out as no new lows have been observed despite a negative news flow (fear of Fed losing independence, inflation data, etc.)

ASSET ALLOCATION GRID - TACTICAL ASSET ALLOCATION (TAA) – August 2025

	Underweight -	Neutral =	Overweight +
Asset Classes		Cash	
		Equities	
		Fixed Income	
		Alternatives	
Fixed Income	Govies 1-10 (CHF)	Govies 1-10 (USD, CHF, GBP)	
	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	
			China
Alternatives		Hedge Funds	
Commodities			Gold
Forex (vs. USD)		Commodities	
		EUR	
		CHF	
		GBP	
		JPY	
		EM Currencies	

INVESTMENT CONCLUSIONS

With summer coming to an end, equity markets remain well-supported, underpinned by AI-driven investment, resilient corporate earnings, and expectations for a more accommodative Fed policy stance. On balance, we continue to see a constructive 12-month outlook for risk assets.

That said, we would caution against extrapolating recent stability too far. Seasonality argues for near-term caution, as September and October have historically delivered higher volatility and below-trend returns. We expect market swings to remain elevated in the weeks ahead, even within an otherwise supportive medium-term backdrop.

Encouragingly, these seasonal headwinds have historically proven transitory, with equities often staging a strong rebound in subsequent months. This pattern reinforces the case for maintaining portfolio discipline and calibrating return expectations following the recent period of robust gains.

We still recommend a moderately positive stance on global equities. Within US stocks, focus should be on large-caps stocks. The strong performance of international stocks this year, driven by the pullback in the US dollar, highlights the importance of maintaining allocations beyond the US.

Welcome to Syzerland®

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