Market Compass

July 2025

MARKET OUTLOOK

- Global markets stayed resilient in Q2 despite US tariffs and Middle East tensions, thanks to positive economic surprises.
- Growth may slow into autumn due to weaker manufacturing, tariff effects on US consumers, and softer earnings. Still, recession risks remain low.
- We expect FX volatility and a weaker USD this summer, favoring long EM positions and credit overweights. IG credit continues to rival sovereigns as a safe haven.
- Views on rates and equities are mixed. We see bond yields drifting lower, but keep short duration due to supply and inflation. We hold a small equity overweight, with hedging advised by late July.

Edited by

MACRO & MARKET RESEARCH TEAM

A team of 13 analysts based in Paris, Cologne, Milan and Prague runs qualitative and quantitative analysis on macroeconomic and financial issues.

The team translates macro and quant views into investment ideas that feed into the investment process.

US

- − Q1 demand was revised down, some weakness in the labor market
- ! Core inflation seems to have plateaued before tariffs kick in
- + Prospects of limited deals and postponement of reciprocal tariffs
- ! At most two rate cuts this year, despite dovish market pricing

EUROZONE

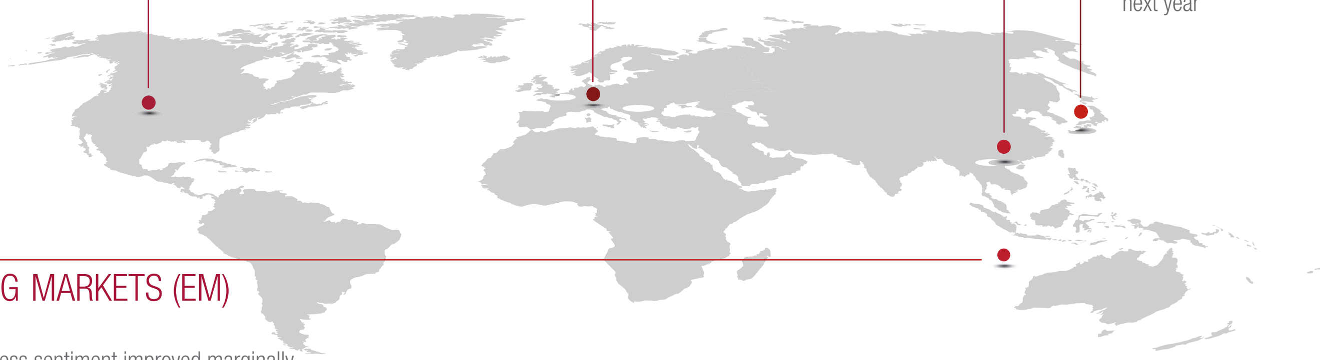
- − Indicators signal stalling activity in Q2 but…
- + ...German fiscal bazooka was frontloaded
- + Inflation is at target, likely to stay there
- ! ECB: final cut to 1.75% likely in September

CHINA

- + Better than expected Q2 activity and sentiment
- + Further easing in trade tensions, but watch volatility
- − Real estate still in weak shape and persistent deflationary pressures

JAPAN

- + Solid wage increases will keep consumption underpinned...
- − ...but trade policy uncertainty will put a lid on exports and capex expansion
- ! Despite unprecedentedly high inflation, the BoJ will stay on hold until early next year



EMERGING MARKETS (EM)

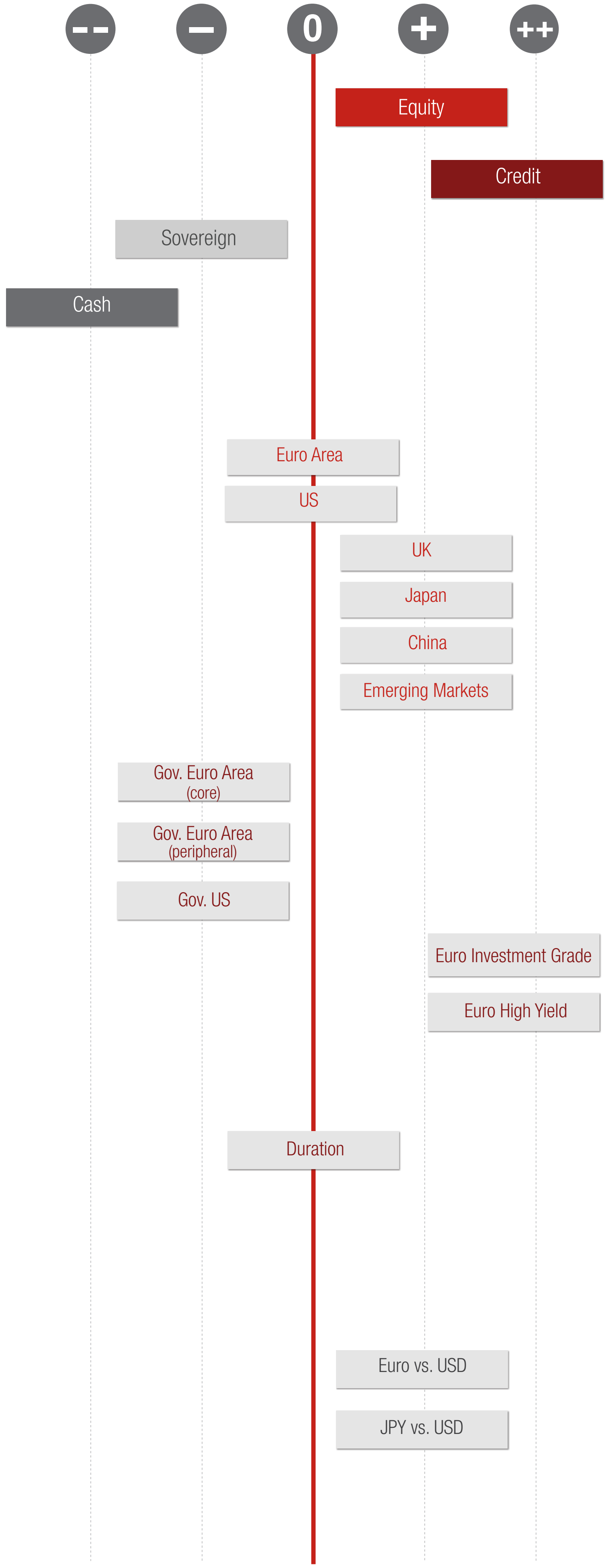
- + EMs business sentiment improved marginally
- + EM local debt kept outperforming, supported by a weak USD
- − Growth slowdown to be limited by monetary easing

+ Positive
− Negative
! Topics to watch

Your Partner for Progress.

DIRECTION OF TRAVEL

- Marginal overweight (OW) in equity
- Keep strong OW in IG credit as recession risks fade
- Slightly underweight (UW) in govies, both core and periphery, neutral duration
- Strongly UW in Cash



Equity

- Mild OW in equities supported by the absence of recession risks, accommodative fiscal and financial conditions, attractive ex-US valuations, and solid market technicals.
- Risks include lingering tariff discussions, macro softness, geopolitical uncertainty, and concerns over the US fiscal deficit and long-term yields.
- Tactically neutral on EMU vs. US; preference for EMU over the medium term.

Bonds

- Weaker economic data on the one hand, and elevated fiscal deficits triggering a higher term premium on the other hand, will likely lead to a volatile, sideways movement of government bond yields in Q3.
- Continued outperformance of EA non-core government bonds vs. core in a friendly environment.

Duration

- Neutral duration recommended.

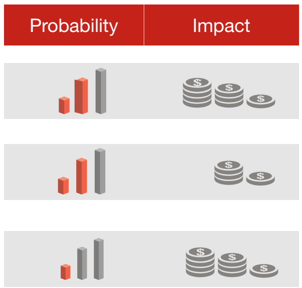
Currencies

- Mounting cracks in US exceptionalism, the USD's dented safe-haven appeal, and the outlook for lower US yields point to further weakness for the dollar, which remains fundamentally overvalued.
- EUR/USD is set to rise further by year-end, even if short-term risks are more two-sided amid highly consensual bearish USD positioning.

GENERALI INVESTMENTS

TOPICS TO WATCH

- Two scenarios: further escalation in trade tensions, but also the possibility of negotiations leading to a delay or partial reversal of US tariffs.
- Geopolitical surprises, including a potential ceasefire between Iran and Israel or in Ukraine.
- Synchronized sell-off in USTs and USD driven by rising US policy risk.



Probability: High ↔ Low

Impact: High ↔ Low

Find out more:
www.generali-investments.com

GENERALI INVESTMENTS