# Mid-year Outlook 2025

## Living in a Land of Confusion

A profound first half of the year has seen many of the accepted norms of the prevailing world order shaken as the new US administration follows through on election pledges to 'Make America Great Again'. In some cases, friends have become foes, spats with neighbours have flared up, and tariffs have dominated the narrative. Geopolitics have vied for top billing, as wars have raged, while debt sustainability has become a broader concern. Financial markets have been volatile, with equity bear markets encountered before recoveries pushed many stock markets to record highs. US exceptionalism, so heavily embraced at the end of last year, is being questioned with the mighty dollar falling sharply. As we piece together a new jigsaw puzzle for the remainder of the year, what is clear is that we are all now living in a land of confusion.

The global economy has weathered the political and geopolitical uncertainty fairly well, with global growth modestly below trend so far and inflation returning towards targets in most countries. Widespread cuts to policy rates have helped cushion activity, while a substantial decline in oil prices and deflation in goods prices are lending support.

That noted, the impact of tariffs on both growth and inflation has yet to be fully felt. There is no doubt that the jump in the average US tariff rate from 2.7% at the start of the year to around 15% currently will be consequential, and it has already distorted trade flows this year through pre-tariff stockpiling. However, globalisation is not dead and new relationships and bilateral deals will be struck.

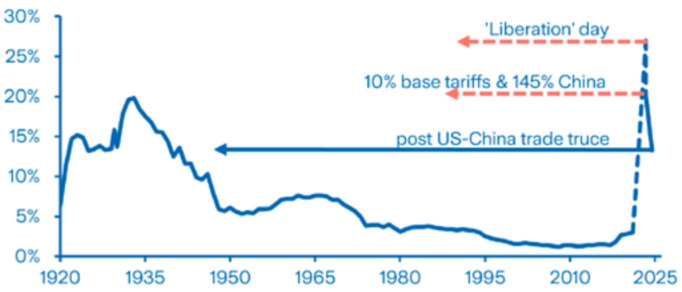
While the global economy is expected to manage and adapt to the tariff headwinds, disruptive US policy is having a more fundamental and far-reaching effect on global imbalances, which should support global activity longer term. Europe has been catalysed into addressing much needed reform, with Germany doing a volte-face on fiscal policy to the tune of more than EUR 1tn spending over 12 years. Most NATO members have agreed to funding of 5% of GDP, while China is having to rebalance its own economy and is energised to lead in technology and AI. While US policy is aimed at building domestic strength, it may also make other key players better, if not great, in the process.

In the near term, disruptions and tariffs will still dominate, with weaker growth, lower inflation outside of the US and further cuts in policy rates. Resilient but volatile financial markets are also likely to characterise the remainder of 2025.

## Tariff trauma

Tariffs have been the defining factor in the first five months of the Trump 2.0 presidency, very different to his earlier innings when they came later in his tenure and focused on China. The US trade deficit is indeed excessive, with most agreeing that a better balance would be prudent. The administration's approach has certainly been spectacular, upending a hundred years of declining tariffs and undermining relationships with key neighbours, namely Canada and Mexico.

## Erratic Tariff Policy




Despite some moderation, US tariffs are at the highest levels in around 100 years

Source: ZIG, UBS, Bloomberg
Note: Assumes unchanged import shares

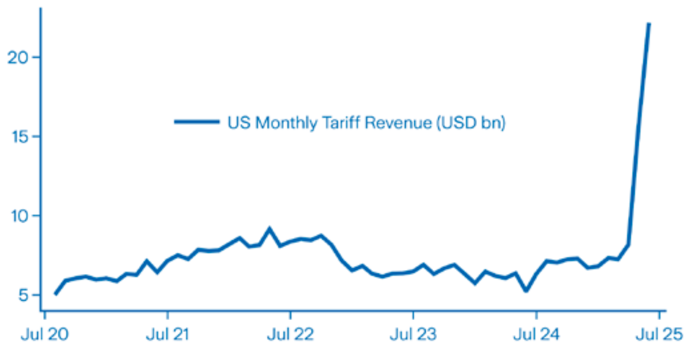
## Anything you can do, I can do harsher

The jump in average US tariffs from a globally low level of less than 3% to around 30% following 'liberation day' was untenable. The tit-for-tat response between the US and China led to tariffs well above 100% for both countries, effectively an embargo on key goods. As the US makes up only 15% of China's total exports, representing around 3% of GDP, China was able to play hardball, with the US eventually holding out an olive-branch. Crucially, China has been de-emphasising the US for years as a direct market for its still heavily export driven economy, with the global south and emerging markets now dominating shipments. China is consequently highly vulnerable to any broadening of tariffs by third-party countries and must build domestic demand to reduce dependencies.

## Breaking up is hard to do

The agreed framework for a deal between China and the US is critical for both nations. The US quickly realised that the symbiotic relationship and interdependencies on intermediate and capital goods could not be untied quickly, with US companies vulnerable, while domestic economic weakness in China could do without additional headwinds. Cross dependencies, in particular rare earths on the part of the US and high-end chips in the case of China, have allowed for a trade framework to be agreed upon. Nonetheless, despite tariff exemptions for computers, electronic devices and some other critical components, the agreement on the new 30% tariffs will have a meaningful impact on US inflation for everyday household products. The four largest US retailers are reporting a rise in their retail prices.

## Tariff revenues jump




US households and companies are paying the price

Source: Bloomberg

It must be remembered that tariffs are a tax on domestic consumption, ultimately paid for by consumers or businesses. While the revenues generated over the past two months in the US from tariffs is notable, these are not coming from China or any other tariffed nation. So, it is a regressive tax that will push up prices and reduce disposable income, most notably for the poorer parts of society. As noted, while some trade rebalancing is no bad thing, the scale is important. The concept of comparative advantage is a compelling one, refined over decades, with countries specialising in what they are best at and importing what others can do better.

## Don't forget the benefits of trade

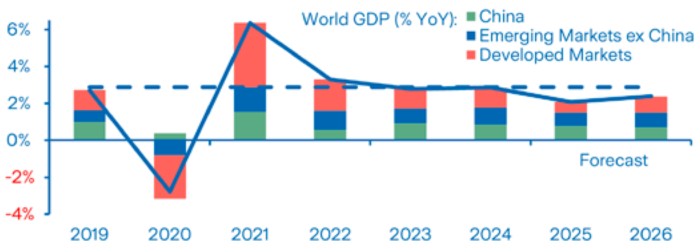
The US has been a huge beneficiary of global trade, with consumers having a greater choice of goods than elsewhere in the world, at the lowest prices, while US companies sourcing the lowest production costs have enhanced their profitability. Aside from goods, the US has a large services surplus as the rest of the world buys more US software, entertainment and business services. It is hard to expect a sea-change in reshoring production to the US. While this may happen at the margin, the cost of production is still generally much lower overseas, even if tariffs are factored into import prices.

Looking forward, it seems unlikely that the US tariff environment will improve much from current levels, with the average tariff rate expected to stay around 15%. Risks are to the upside should other countries fail to find agreements with the US or should drugs and other currently exempt import categories be tariffed. We suspect that there will be further disruptions over the summer months before some clarity emerges later in the year.

## Global growth to slip notably below trend in the second half

The move away from the worst of the 'liberation day' tariffs has shifted the growth picture from recessionary to non-recessionary, with current tariffs deemed to be painful and disruptive, but manageable. One of the key headwinds from tariffs has been the uncertainty that the process itself is causing, with the erratic on-off nature leading companies to hold back on investment. With capital spending and the building of production capacity a multi-year commitment, companies are understandably reluctant to deploy funds when the landscape of the months, let alone the years ahead is so opaque.

### Global growth dips




Tariffs and trade uncertainty have slowed growth to below trend

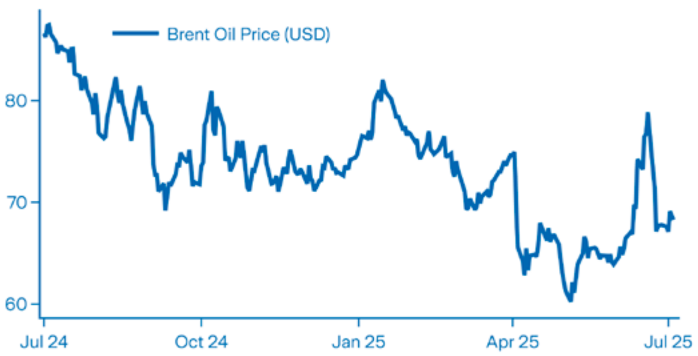
Source: ZIG
Note: Dotted line shows average global growth rate since 1990 at market exchange rates

As we look to the remainder of this year we see slower global growth in the second half, with 2025 in aggregate being notably below trend and well below our pre-tariff forecasts. Further ahead, however, global growth is likely to benefit from some of the changes afoot that we will go into in more detail at a regional level.

### Inflation has been tamed, with further falls likely outside the US

In the meantime, slower global growth this year will take the heat out of inflation, and this should allow central banks to continue to trim interest rates. Divergencies exist, however. At one extreme, Swiss rates are again back to zero, with the SNB likely to have completed its cutting cycle. At the other extreme, rates in Brazil have hit 15%, with perhaps one more hike likely as the central bank forcefully battles to bring down resurgent inflation. Generally, central banks are finally achieving their inflation objectives. Even in the US, where inflation is expected to again breach 3% as tariffs take hold, the weakening growth outlook should prompt the Fed to resume cutting in the autumn, with two cuts expected before year end.

### Oil prices are in decline




Oil is now cheap and will help growth and inflation

Source: Bloomberg

One factor that is certainly helping on the inflation front is the staggered fall in the price of oil. Despite the ongoing conflicts in the Middle East, the price of oil has shrugged them off as the risk to the supply of oil remains relatively modest. Of more importance this year has been the increase in production from OPEC-plus members at a time when the global growth environment has weakened. In real terms, oil is now extremely affordable on a historical basis, and this is a positive for both growth and inflation, despite impacting oil producers negatively.

### US exceptionalism is dented, not broken

The US economy remains a dynamic powerhouse that generally surprises positively. Nevertheless, the hike in tariffs and policy uncertainty are going to leave a few dents. Unlike during President Trump's first term in office when tax cuts were quickly forthcoming and tariffs a later development, it has been the other way round this time. While sticking to election pledges, the combination of significantly higher tariffs, a crackdown on immigration and the implementation of the Department of Government Efficiency (DOGE) programme have proven unsettling, with potential benefits from taxation changes and lighter regulation still some way off.

Small business optimism has fallen back from the jump which followed election day, and consumer and CEO confidence levels have slumped markedly. While the US President sees a temporary slowdown as a period of 'detox' and perhaps needed to reshape the economy, we are a little more concerned and see a meaningful slowdown in the second half of this year, though the tempering of tariff levels should mean recession is avoided.

### US confidence indices take a hit


Consumers and businesses are suffering from uncertainty

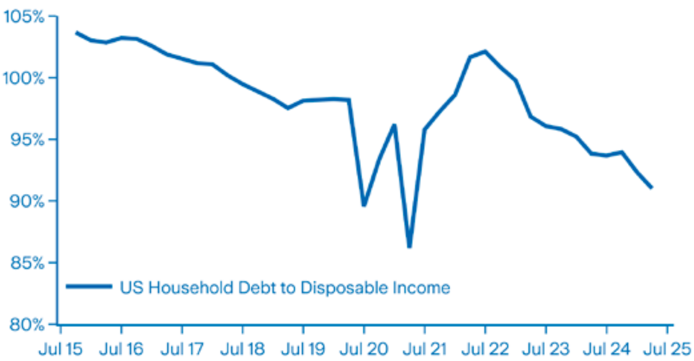
Source: Bloomberg

Nonetheless, growth is likely to track closer to 1% for the year, compared with the 2% we expected prior to tariffs. Despite the labour market remaining in surprisingly good shape, with unemployment still only at 4.1%, job openings and hiring intentions have been increasingly mixed, initial jobless claims rising, and job-hopping has dropped as well. Continuing unemployment claims are also rising as it is harder to find new work if you are made redundant. The housing market remains under pressure, with demand weakening and new home construction running at the lowest level since the depth of the Covid crisis. Consumption is also slowing, and capital spending and industrial production are weakening.

### The Fed is expected to resume easing later this year as the labour market weakens

Importantly, however, while the US economy is bifurcated along income levels, it remains structurally robust and enters this uncertain period on a fairly secure footing. Households' savings rates have been rebuilt, helped by substantial real-earnings growth, and debt to income levels have improved markedly in recent years. Financial conditions have also eased appreciably, with financial assets rising and interest rates declining. Despite tariff-induced price rises, we see the Fed being more influenced by the softening labour market, with two rate cuts likely later in the year, which, all-in-all, leaves the risk of recession fairly low. As for the Fed itself, it was encouraging that the Supreme Court appeared to endorse the view that the independence of the Fed is sacrosanct, following investor fears and market turbulence back in April that the Fed Chair, Jerome Powell, could be replaced by the President.

### US household balance sheets have improved




Debt levels are moderating, while savings have increased

Source: Bloomberg

### The Big Beautiful Bill may help sentiment, but it will hurt the deficit

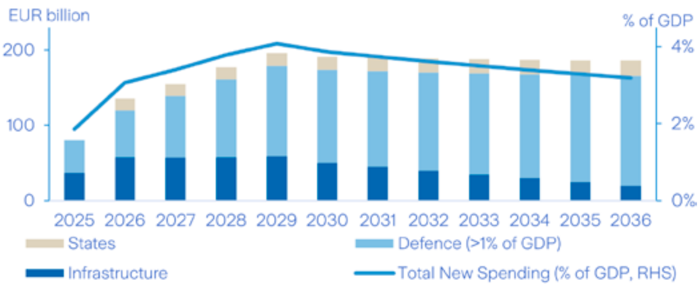
As for the passing of the President's Big Beautiful Bill (BBB), it could provide a lift to sentiment given the front-end loading of tax extensions and cuts (including on overtime and tips), but it will also lift the debt ceiling. Market participants are increasingly worried about the growing debt-to-GDP in the US, which is now above 100%. The BBB will take that ratio to around 130% over the next 10 years. The budget deficit is expected to run at around 7% of GDP both this year and next—the highest level reached outside of a recession. Despite cuts to Medicaid, food stamps and federal employee benefits, along with the scheduled termination of some of the newly proposed tax cuts in 2028, the net expansion of the deficit to USD 2.4tn, according to the Central Budgeting Office, is a concern. Interest payments are already the government's single biggest expense, crowding out other more economically productive programmes.

In general, we see the US economy weathering the uncertainty and avoiding a recession. Conditions in the second half of the year are likely to look stagflationary, however, with growth low and slowing, inflation reaccelerating over the summer, and government policy remaining erratic.

### The Eurozone is forced to do the right thing

In many ways it could be argued that the US administration under President Trump may be having the most profound effect in Europe, forcing it to do what has been much talked about, but never delivered. The need for improving integration, reducing external dependencies, simplifying structures and investing in growth were well expressed in Mario Draghi's seminal report. However, what we have seen in recent months has been truly remarkable and would undoubtedly not have happened were it not for the US president. Europe is changing for the better.

### German spending commitments are profound




Germany is grasping the opportunity to reposition its economy

Source: ZIG, Bloomberg

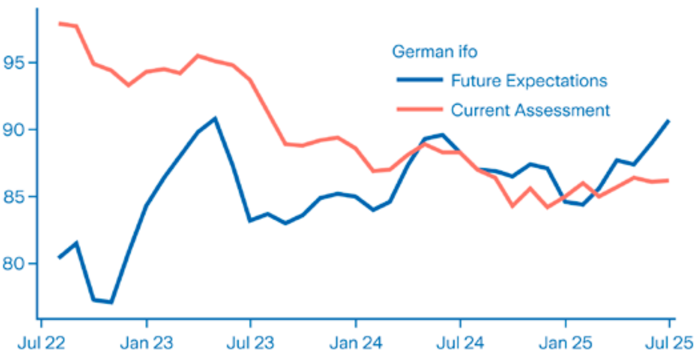
The remarkable shift in the German attitude towards public investment and spending has been transformational, acknowledges that low debt levels (currently 64% of GDP) are of little value when the economy has been stagnating for the better part of a decade, with infrastructure, education, defence and industrial prowess all in decay. We wrote extensively about this in our topical paper Green Shoots in the Old Continent, but in summary, Germany has entered a new chapter.

### Defence and infrastructure need to be reloaded

The EUR 1tn or more in spending over the next 12 years across defence and infrastructure initiatives should reposition the country. Implementation risks remain, but the fact that the 2025 budget that has just been agreed and front loads spending, clearly shows intent. While the risks of delays and misallocations of capital are clear, the hope is that it will set the tone for the rest of the Eurozone and Europe more broadly, creating spillover benefits for other member countries from procurement contracts and multiplier effects. Indeed, with newly increased commitments to NATO spending across Europe and prospects of further issuance of common single currency debt, Europe has a clear window of opportunity to resolve structural flaws in the single market. Given that it is the world's largest consumer market, it needs to stimulate its own domestic demand, reducing dependencies on exports to the now heavily tariffed US market and the increasingly independent and competitive Chinese market.

While prospects for the Eurozone look notably brighter in the years ahead, more immediately challenges remain for the remainder of this year. Following a surge in export orders pre-tariffs, new order indicators have plunged. In the case of Germany, industrial and manufacturing activity remains under the cosh, squeezed by both China and the US. Unemployment is ticking up and wage growth has slowed sharply. We suspect growth is going to be close to zero over the remainder of the year.

### Prospects for German economy are improving



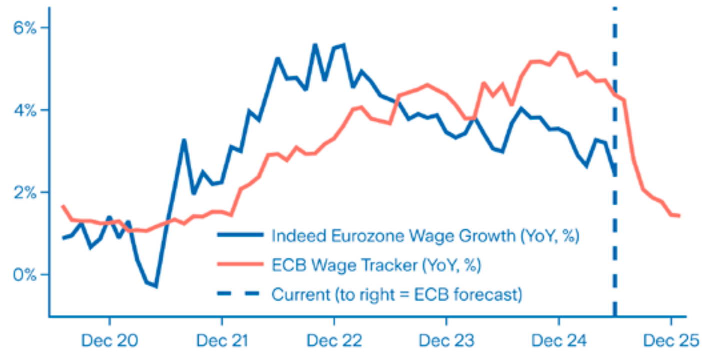

Business confidence has been weak, but is bottoming

Source: ZIG, Bloomberg

### Near term challenges remain, with anaemic H2 Eurozone growth

Italy continues to show remarkable political stability, given its history. The economy is ticking along, helped by continued deployment of the NextGen EU funds, and we see trend like growth in the second half of the year. France has more challenges, not least on the political front. Prime minister Bayrou has just survived a no-confidence vote as he tries valiantly to push an ambitious 2026 budget through to reduce the deficit (which will remain almost double that of Germany's even after the new fiscal commitments) following the rejection of pension reform proposals. Although there may be other votes of confidence ahead, we see little chance of significant political change prior to the 2027 elections. France, however, should benefit in the longer term from the increased NATO commitments, with its large and effective defence industry. As for Spain, a leading light in terms of Eurozone growth, it is likely to see some softening from above-trend levels in the second half but remain robust. A good mix of businesses, relatively limited exposure to the US, and a still very positive demographic impulse coming from LatAm immigrants, will keep the economy in good health despite a still vulnerable political backdrop.

### Wage growth is in retreat




The ECB is encouraged by wage pressures diminishing

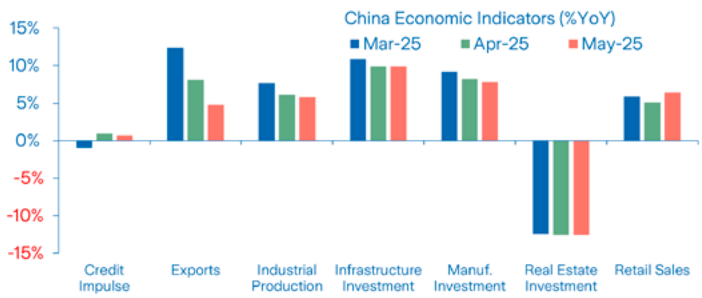
Source: ZIG, Bloomberg

In general, we see yet another lacklustre period for the Eurozone into the end of the year, before prospects improve. Our 0.7% growth projection for the year was flattered by the pre-buying of exports in Q1, though it will accelerate above trend in 2026. The current sluggish growth environment is pulling inflation down, with CPI now ticking below the 2% ECB target at 1.9%. With falling wage growth and slack in the economy, we do expect another cut by the central bank before year end, taking the policy rate to 1.75%.

### China muddles through

China has been able to counter US tariffs to the point that a structural agreement has been reached, though this still imposes additional 30% tariffs on US imports from China. The key point is that both countries have become so dependent upon one another that they simply could not function with a hard break in trade. Notably, US trade policy is forcing the hand of the Chinese to expedite self-sufficiency by rapidly advancing the technology and AI sectors. While China is able to muddle through the tariffs, it remains gripped in a deep balance sheet recession centred around the housing market and continues to tackle a structural challenge with cyclical measures. Consequently, we think China will struggle to meet its 5% GDP target for 2025, though we have nudged up our growth forecast following the trade agreement.

### China's growth is still weak




The economy remains under pressure from housing and lack of domestic demand

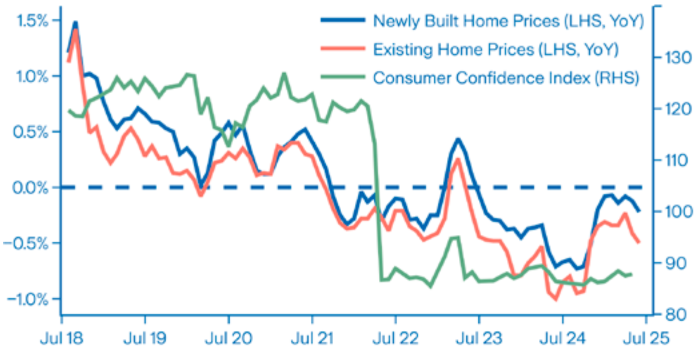
Source: ZIG, Bloomberg

## Housing has not been addressed forcefully enough

While cutting interest rates and easing housing purchase restrictions are helping to reduce the pace of house price declines, they remain prevalent, with even the Tier 1 cities that had been doing better seeing renewed weakness. Around 50% of existing homeowners report a paper loss on their homes, while expectations of further price declines are dominant. In particular, appetite for buying new homes has plunged as the fear of losing deposits should construction companies renege on contracts is high. Unfortunately, it seems like we have not yet seen the lows in housing, which will continue to undermine confidence and crimp consumption throughout the remainder of the year.

One constructive development has been the restructuring of local government debt, taking it out of the grey market and making it more transparent. Municipal debt issuance is rising as a result, which helps to reduce a key economic fragility. However, it is largely the banks that are being encouraged to buy this debt, which could be seen as creating new vulnerabilities despite recent capital injections into key banks. While we maintain that the creation of a bad bank to ring-fence exposures and allow a clean break for good institutions would be a beneficial, this seems unlikely.

### No recovery in the Chinese housing market yet




Consumer confidence remains depressed with home prices continuing to fall

Source: Bloomberg

## China goes all-in on technology and energy superiority

More encouragingly, as a result of the trade and domestic growth challenges, President Xi has shown an urgency in embracing technological change and power generation to shift growth higher. With the US trade agreement buying time for access to higher-end US chip technology, the race to become self-sufficient has quickened even more. With over 12 million students graduating from Chinese universities each year and access to leading AI scientists, there is certainly the potential to succeed. Now, there appears to be an understanding that the private sector must be supported and allowed to develop innovative solutions and be less encumbered by state intervention. We see this as critical and it also supports the financial markets as facilitators of productive capital allocation. Tied to this, China is now in a dominant position in terms of renewable energy. While we would like to see a faster phasing out of coal power, China is uniquely positioned in term of end-to-end energy production, which gives it a competitive advantage longer term in IT infrastructure and data warehouse capabilities.

Nearer term, we still see a challenge for China as growth remains rather lacklustre and dependent on continued fiscal and monetary support. We see further rate cuts this year and fiscal incentives for consumption, but nothing profound. Headline inflation is expected to remain in negative territory at both consumer and producer price levels, which is bad for China but remains helpful in bringing down inflation in many other parts of the world. BYD recently announced price cuts of more than 30% for over 20 different electric car models sold in China, triggering a price war in the EV sector and consolidation. This is indicative of weak demand coupled with overcapacity across the economy.

## Other areas are managing to survive in the crosswinds of change

With the big three trading blocs experiencing below-trend growth in 2025, it is no surprise that global growth is expected to be weak. Elsewhere, Japan continues to fight inflation, with real incomes deeply negative and surging rice prices undermining confidence. While we expect a further rate hike by the BoJ at the end of the year, our concerns are more around slowing Japanese growth rather than structural inflation. LatAm has its own idiosyncratic challenges, but here we do see some positives on the horizon, with inflation largely falling and growth close to trend. Despite the risks around tariffs, the global economy is seeing some form of normalisation in terms of inflation and interest rates, albeit led by weaker growth.

## Government bond markets reflect fiscal risks and offer attractive real returns

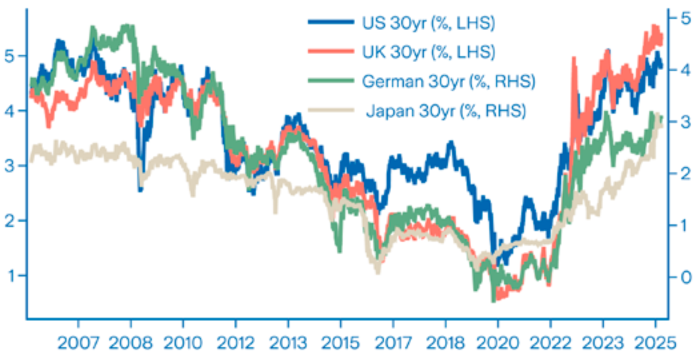
With so much going on at the political and geopolitical levels, government bond investors have had a difficult first half of the year, reflected in market volatility. Fears around inflation morphed into fears about stagflation, fiscal largess, lack of long-end demand, and the potential end of US exceptionalism. With so many concerns, we believe that much of this is reflected in pricing. While yields have backed off in recent days, we continue to see real yields as attractive in an unpredictable global environment. Falling inflation outside of the US and weaker growth over the remainder of the year will allow further policy rate cuts, supporting the front end of the curve.

## Treasury investors show they are a force to be reckoned with

Fears around the inflationary impact of tariffs unsettled investors, resulting in a sharp move higher at the long end of the curve following 'liberation day', only to be amplified by additional fears around Fed independence. While global bond markets were impacted, it was the move higher in long US Treasury yields that prompted the US President to state that he had 'no intention' of removing the Fed chair. The intervention showed the power that the bond markets possess, and confirmed our view that it would be the financial markets themselves that would ultimately constrain the most disruptive US policy initiatives.
With global economies highly indebted, we see the recent

highs in yields as thresholds that, if broken, would exert considerable headwinds to growth and ultimately become self-correcting as growth faltered. Consequently, we see long duration bonds as attractive tactically.

### Long bond yields are high globally

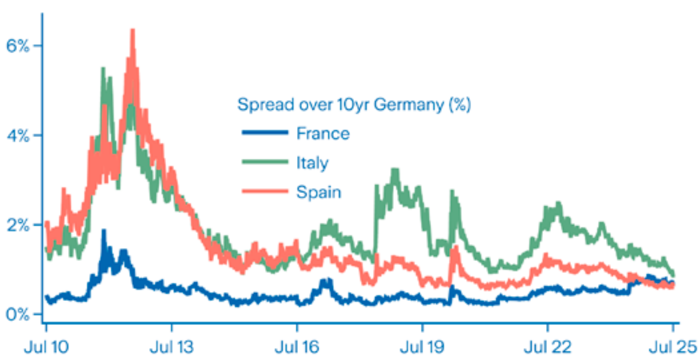



Investors are demanding a greater risk premium to lend long term to governments

Source: Bloomberg

That noted, we do see long bonds trading at a higher equilibrium level than pre-Covid as a result of structural changes. Investor needs for long duration assets in many key economies are waning as pension deficits have been closed and the plans themselves have shifted from defined benefits to defined contribution, while the insurance industry now also has lower needs. Perhaps more importantly, it is debt and deficit levels that are finally in the crosshairs of lenders, with demands for higher risk premia given the unsustainable rise in deficits. The good news is that this is now being priced, in light of the steepening of curves in highly indebted countries. Treasury departments have taken note and are being forced to consider turning to shorter duration issuance for funding. Even US Treasury Secretary Bessent, a critic of short duration issuance in the past, is being forced to go down that path. Unfortunately, governments continue to fail in tackling their deficits.

### Peripheral spreads are tight




Risk premiums across EU bond markets are narrowing, though political risks impact France

Source: Bloomberg

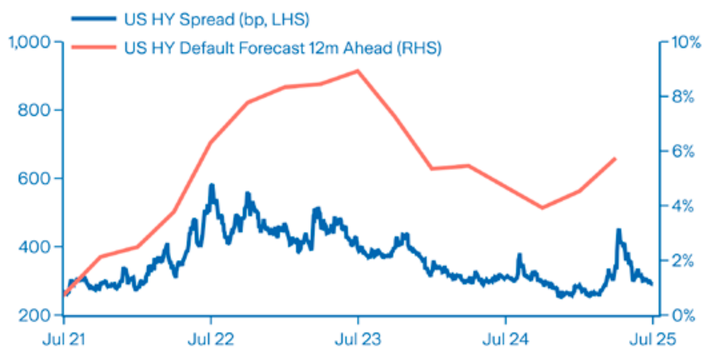
### Bunds are attractive, with peripheral spreads rich

As we look over the remainder of the year, we see value in German Bunds. Despite the considerable issuance that is expected as part of Germany's fiscal transformation, debt and deficit levels will remain relatively low, with their credit rating still very much AAA. Elsewhere, we see peripheral spreads as offering little value. Spreads of other EU members' bonds against German Bunds are the lowest in 15 years, while political risks in France, along with a persistently high deficit, have pushed French yields above those in Spain. We see this as justified for the time being.

### Corporate credit markets priced for perfection—or close to it

Credit markets have been resilient despite the many challenges in the first half of the year, with spreads closing in on tights and investor demand supportive. While both investment grade and high yield markets are likely to be supported in the short term, return profiles seem to be asymmetric, with little upside and considerable downside should the economic cycle begin to deteriorate. Within credit, we prefer European investment grade over US investment grade and high yield but see equities as offering significantly better risk return characteristics from current levels.

### Credit spreads offer little risk premium




US high yield credit spreads are tight at a time of troubling defaults

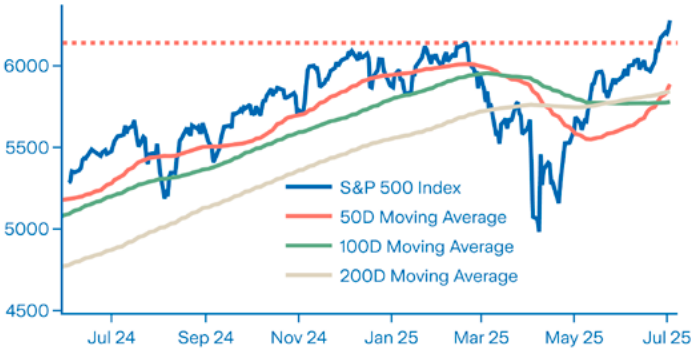
Source: ZIG, Bloomberg

Investors have remained enthusiastic about corporate credit this year and weathered the risk-off environment back in the spring well. The search for yield continues, keeping credit in vogue within the fixed income space, despite historically tight spreads. Bankruptcies have been running at an elevated level in the US, though this has tended to be for smaller companies that continue to be penalised by funding pressures. We would be more concerned if this started to spread up the capitalisation rankings. Though declining short rates and tight spreads are helpful for funding, total borrowing costs remain elevated.

That noted, investors on both sides of the Atlantic are cash-rich, and flows into credit funds have been impressive in recent weeks, keeping demand for new issues high. Other segments of credit outside of US corporate credit, such as ABS and municipals, along with European credit, offer better value on a risk-adjusted basis. We remain cautious, however. With still elevated government bond yields in some regions offering attractive real yields, we don't believe investors are being rewarded adequately for taking on additional corporate risks in an environment of slowing global growth. Within credit, US investment grade is particularly rich and demands caution in the longer term

## Equity markets rise from the flames, with momentum the primary driver for now

### A 'V-shaped' recovery for stocks




Many global stock markets break out to new highs

Source: Bloomberg

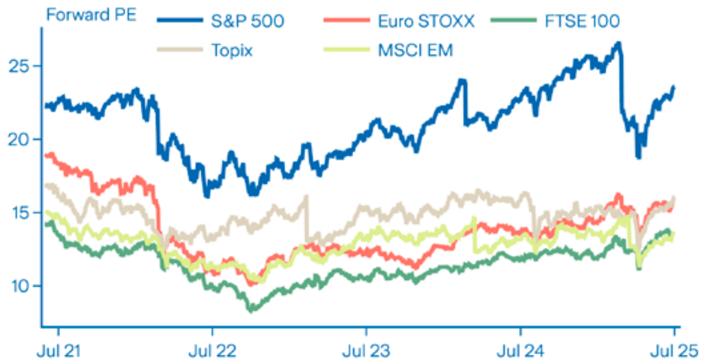
It has been a rollercoaster ride for equity investors this year, with significant performance divergences, and of course the fleeting bear market that was encountered back in April. Given all that is happening in the world currently, it may seem perverse that many equity markets are posting record highs following a classic 'V-shaped' recovery. This in itself is indicative of investors unwinding their fear trades, closing short positions and scrambling to regain performance in the remainder of the year. While we see continued volatility, and the risk that a likely resumption in tariff tiffs shakes the rally, we suspect that markets will close higher by the end of the year. Investors have seen that the US administration is very keen to avoid recession and a bear market and is likely to adjust policy should those risks rise again.

### A shake-up occurred as investors were caught offside

When a number of equity indices fell by more than 20% from prior highs back in April, this technical definition of a bear market caught many institutional investors wrong footed, including ourselves. Fears that the US administration was truly fundamental rather than transactional in terms of economic principles led to defensive positions being taken. However, the intervention by the President regarding Fed independence, along with a pause in tariffs, shifted the narrative. While record share repurchases by corporate America had helped temper the sell-off, re-risking by investors both retail and institutional resulted in a dramatic recovery. Global equities transitioned from bear to bull market conditions in a matter of weeks. With the MSCI World Index up more than 20% from April levels, and the tech heavy US Nasdaq index up more than 30%, most markets are well into positive territory for the year.

### Fundamentals are again stretched

### Valuations are again rich based on forward earnings




Earnings are expected to be under pressure from slower growth and higher tariffs

Source: Bloomberg

Fundamentals and valuations are a concern but are unlikely to derail the mood. With global growth slower, revenues are likely to be under some pressure in the second half of the year, while tariffs will undoubtedly impact US margins. There are a number of offsets, however. Lower bond yields and falling policy rates lend support and analysts' earnings expectations have already adjusted lower. However, we see a key tactical driver as simply the case for further institutional buying to rebalance portfolios. Although many short positions will have been closed, various positioning and flow indicators still show further to go, with CTA and systematic funds shown to still be short stocks.

### Weak USD to help US stocks, while China is again becoming investable

At a country level we have become more enthusiastic about US equities and do not believe that US exceptionalism is dead. The US still offers the biggest, deepest, most liquid markets where companies want to be listed, and investors have become too optimistic about the relative merits of other regions. While diversification was needed from concentrated positioning at the end of last year, we see potential for US stocks to play catch-up in terms of performance. The notable decline in the USD will be a brisk tailwind for US earnings over the remainder of the year, while continued stock repurchases and potential benefits on the regulatory front will help sentiment. Technology stocks will also remain a driver in the quarters ahead. While challengers will come as part of the usual evolutionary process in the sector, US companies remain well positioned and have not lost sight of the need to continually invest and innovate. We do see some other regions doing well, however. China had become unloved by investors, but the focus on IT, the need to embrace their capital markets, and the trade framework agreed with the US are likely to remind investors of the opportunities available.

Despite the sharp rally in stocks since the spring, and an inherent vulnerability given extended valuations, we do see further gains ahead. Typically, investors do not respond to the same issues in the same way twice, which lessens the risks from future tariff tantrums. For now, momentum is back in the ascendency, and we are cautiously optimistic tactically.

### Dollar downside, but modest

The dollar's decline since the start of the year has been striking, at around 10%, but is still relatively contained by historical standards. The strength of the dollar into the end of last year should not be forgotten, indeed it prompted calls for a 'Mar a Lago accord' from some quarters to devalue it and make the US more competitive. Just as we thought that this was unrealistic, so too do we think that talk of the demise of the USD is ill-founded.

### Not the end of the USD


USD eases back within long-term range from an extended level

Source: Bloomberg

Currencies tend to be momentum driven and to overshoot in both directions. As such, we do see some further downside to the USD, but at a more gradual pace. Short USD is now a very overcrowded trade by investors and, as previously pointed out, we don't see an end to US exceptionalism. Investors have diversified both equity and Treasury holdings this year, but the pace of that is expected to slow, if not reverse to some extent. In contrast to the USD, the CHF been particularly strong, helped by its safe haven status in difficult times. Given the extent of the move, and with Swiss policy rates back at zero, we see limited room for further depreciation of the USD against the CHF near term.

## Conclusion

The remainder of 2025 is unlikely to be as unsettling as the first half, if only because we have all become accustomed to greater uncertainty and elevated political and geopolitical risks. It is encouraging that we have moved away from the worst of the tariff threats, though the still dramatic rise should not be underestimated. Consequently, erratic US policy is becoming a little more predictable. Risks of recession have receded while inflationary pressures outside of the US continue to fade. Lower policy rates will be helpful against a backdrop of slower growth, while financial markets are likely to grind higher. That noted, risks remain high, and volatility should be expected as we try to grow a customed to living in a land of confusion.

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