

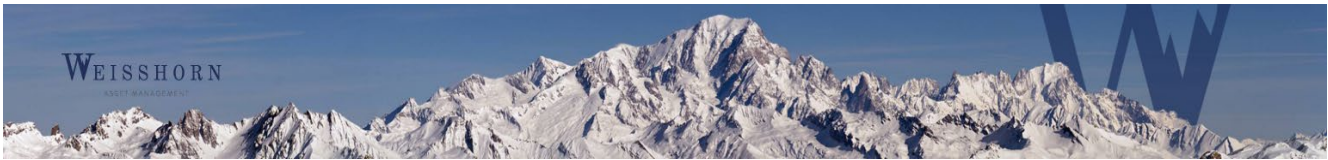
## Market Review - July 2025



The behavior of equity markets in this extraordinary year of 2025 is approaching the most metaphorical definitions one can find: levitation, or something close to it. It is worth noting that bond markets are following suit, with credit spreads at record lows. Thus, the trade war triggered by Trump, along with budget deficits as far as the eye can see, geopolitical risks, threats to global economic growth, and the dismantling of international institutions, have failed to dampen investor optimism after an initial week of panic in April.

### Good news ?

Short-term vision and an innate ability to perceive the levers of power have enabled the US President to achieve success in foreign policy. The bombing of Iran, against the advice of his MAGA base, has allayed fears of a dramatic escalation of the conflict between Israel and Iran. Since US planes rained penetrating bombs on Iranian nuclear sites, the conflict has disappeared from the headlines. The truce is fragile, but it remains a success nonetheless. Regarding the war in Ukraine, the situation is also evolving. Trump thought he could achieve a quick ceasefire thanks to his good relationship with the autocrat Putin. However, after several attempts, each marked by an intensification of Russian bombing of Ukraine, the White House tenant realized that Putin was mocking him, and Trump does not like to appear weak. On July 16, he gave the Russians 50 days to reach peace negotiations. At the same time, he decided to sell new ammunition and Patriot missiles to NATO, which can then pass them on to Kiev. Then, in typical Trump style, the President decided to reduce the deadline to 10 days on July 29. The change in attitude is spectacular. Any positive development, even if it does not lead to lasting peace, would be welcomed by the markets.



## **Budget & trade**

In the United States, the Big Beautiful Bill Act (BBB) has been passed. This is a victory for corporate America, the financial sector, and, in particular, private equity and the fossil fuel industry. It is a defeat for renewable energy and less affluent taxpayers. Artificial intelligence will not benefit from a 10-year moratorium before being regulated by the state, as desired by major tech companies such as Google, Microsoft, Meta, and OpenAI. Unless the US economy grows by 3% or more per year in the coming years, budget deficits will remain high, and the national debt is likely to increase further. However, the BBB will not provide any additional meaningful stimulus compared to the previous budget.

The passage of the BBB through Congress was an important step for the US government. Once it was passed, President Trump could return to his favorite hobbyhorse, tariffs. In particular, the issue of trade with Japan and Europe had to be resolved. This has been done, with imports from both regions being taxed at 15% with a few exceptions. Ms. Von der Leyen also agreed to \$600 billion in (private) investments in the US and \$750 billion in energy purchases over three years. There is one problem, though: according to Barron's, the US exported \$320 billion worth of energy products in 2024, while Europe purchased \$79 billion. It will be impossible for the Old Continent to reach \$250 billion in annual purchases. At the same time, Japan has committed to purchasing \$550 billion over the next three years. Thus, these two regions alone already account for 140% of US exports in 2024. And that calculation does not include India and the rest of the world. There is no infrastructure to implement such a deal. This highlights the lack of preparation ahead of these "agreements" and the purely intuitive and transactional nature of the US President. He doesn't know what he can negotiate; it is a show. US importers will pay the taxes, not the Europeans. It should be noted that these agreements are merely expressions of intent and not formal contracts; no formal documents have been signed.

For the Americans, an extension of the tariff truce with the Chinese for the next three months still needs to be negotiated, with many issues back on the table. Trump has made a conciliatory gesture by recently authorizing the export of Nvidia H20 chips to China. A superficial agreement should be enough to please the White House. However, the future divorce between China and the US is irrevocable.

### **The Unimplementable US-EU Tariff "Agreement"**

Topic	Details
<b>US-EU Tariff Agreement</b>	US sets most tariffs on EU products at 15%, up from 10% but down from 25% on autos; EU eliminates tariffs on US exports.
<b>Sectoral Tariffs</b>	US tariffs on autos, pharmaceuticals, semiconductors set at 15%; potential for lower rates with other partners.
<b>Impact on US Effective Tariff Rate</b>	Reduction by 0.7pp vs baseline due to 10pp cut in sectoral tariffs with EU; total ETR expected to rise by 16.2pp by 2027.
<b>US-EU Trade Commitments</b>	\$750bn energy purchase over 3 years, \$600bn investment pledge.
<b>Other Partners &amp; Risks</b>	56% of imports from partners without deals; potential 1.8pp ETR rise if no further deals.
<b>Current Tariffs Impact</b>	Tariffs implemented so far have added 8.8pp to US ETR, reduced to 8.5pp with concessions.



## The Federal Reserve under pressure

Now that most of the meaningful "trade agreements" have been concluded, it is time to turn our attention to the Federal Reserve. Jerome Powell is under enormous pressure from the White House. M. Trump wants to lower interest rates. Powell believes it is too early to do so, given that inflation has not yet returned to the 2% target and the impact of tariffs has not yet been felt. The Federal Reserve wants to wait. However, in 2021, the Fed chairman explained that the rise in inflation was temporary, when in fact it was not. If we fast-forward to today, he fears that the effect of trade tensions will be spread out over time and push inflation up, even though there is a strong chance that this will only be temporary. After all, there are no new taxes every year. The US President's impatience is therefore understandable to a certain extent. However, this is not the first time that disagreements have arisen between the Fed and the White House. This is why the Fed was created as an independent body, so that it would not serve the interests of the government and would strengthen the quality of institutions, thereby enhancing the value of the greenback. Dismissing the head of the central bank, even if a pretext can be found for doing so, would be a grave mistake. Alluding to the possibility of doing it is already a dent in the credibility of the central bank.

## Market trends to end April 2025

End of July	Equities in Local Currencies							
	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	MSCI EM	CSI 300
Perf 1 Month	1.23%	2.17%	0.31%	1.38%	2.90%	-0.72%	1.67%	3.54%
Perf 3 Month	11.50%	13.83%	3.09%	2.35%	8.35%	-2.32%	11.72%	8.09%
Perf YTD	9.93%	7.78%	8.66%	5.30%	24.17%	2.03%	15.60%	3.58%

End of July	Commodities				Currencies vs EUR			
	WTI Oil	Brent Oil	Gold	Copper	USD	JPY	GBP	CHF
Perf 1 Month	6.37%	7.28%	-0.40%	-2.61%	3.25%	-1.34%	-0.70%	0.80%
Perf 3 Month	18.98%	14.91%	0.04%	5.33%	-0.76%	-5.85%	-1.66%	0.93%
Perf YTD	-3.43%	-2.83%	25.35%	9.61%	-9.31%	-5.40%	-4.26%	1.37%

End of July	Bloomberg Indices Bonds Total returns							
	Global Aggregate	US Aggregate	Euro Aggregate	US 10 Year Treasury	German 10 Year Bund	Global Credit	Global High Yield	Emerging Sovereign \$
Perf 1 Month	-1.49%	-0.26%	0.01%	-0.59%	-0.83%	-0.73%	0.38%	0.92%
Perf 3 Month	0.02%	0.54%	0.09%	-0.21%	-3.00%	1.66%	4.40%	3.54%
Perf YTD	5.67%	3.75%	0.85%	4.71%	-5.92%	6.87%	7.23%	5.90%

Source : Bloomberg 31/07/25

## Dollar Index – Not A Collapse So Far

The dollar is at the heart of the global monetary system. Our monetary system is based on trust. This has already been shaken by the freezing of Russian assets held by its central bank and by discussions among MAGA Republicans about a Mar-a-Lago agreement. If the US central bank were perceived as an extension of the Trump administration, this would further reduce the already diminished appeal of the US dollar, especially given the unpredictability and lack of discernment of the aging President. If Powell is not fired, the question will arise again at the end of his term in May next year. Thus, the downward trend of the dollar



is unlikely to reverse in the coming months, although technical rebounds are always possible, particularly in the coming days.

As expected, on the 30th of July, the Federal Reserve kept interest rates unchanged at 4.25-4.5%. Two Fed Governors dissented from the decision, instead wanting a 25bp rate cut. The FOMC is ready to adjust its monetary policy if needed. A rate cut in September is not a done deal; the probability of a cut decreased after the meeting. Someone is going to get angry with Mr. "Too Late".



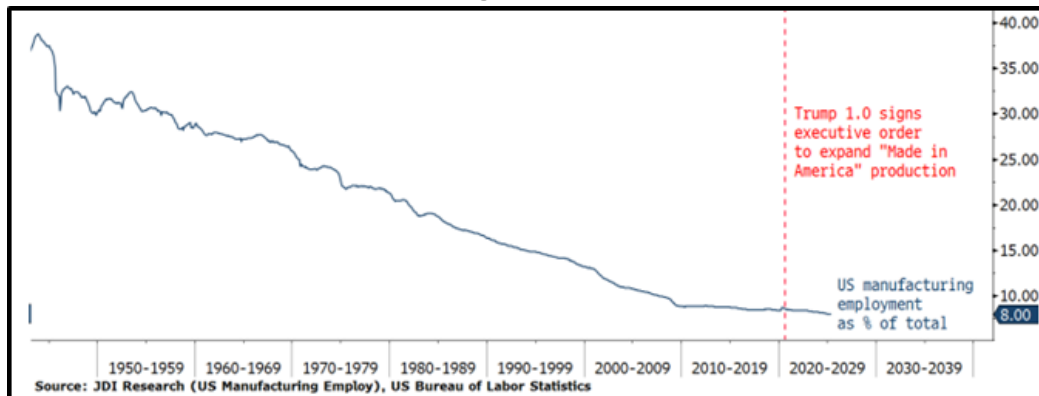
### **The reshoring dream**

It is unlikely that the US will succeed in rebalancing its economy in a way that reduces its dependence on foreign countries while creating jobs and infrastructure in the manufacturing industry. Moreover, since the introduction of the first customs barriers in 2019, the manufacturing sector has continued to decline in economic importance. Apart from the issue of domestic production costs, it is undeniable that skilled manufacturing labor is currently in short supply in the US. Workers would have to be brought in from abroad, and that is not going to happen. According to research by the American Enterprise Institute, 2025 could mark the first time in 50 years that the United States experiences negative net migration. If these figures are accurate, they will further exacerbate the sectors of the economy that depend on cheap labor.





### US Manufacturing As A Percent Of US GDP

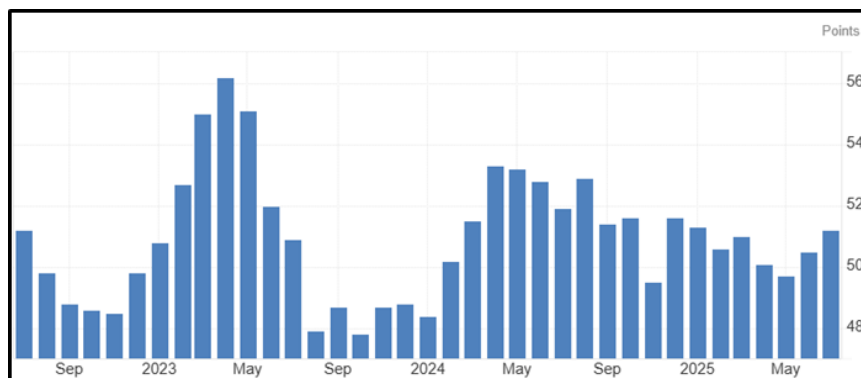


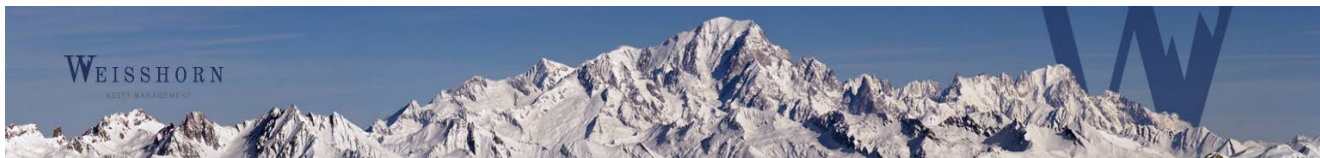
For US companies, the issue of reshoring is too costly and carries a considerable risk, given the uncertain environment. What happens if President Trump changes his mind and reverses the policies that have been made? This is why many entrepreneurs should opt for "near-shoring," which will allow them to retain the advantage of lower wages. The expected positive effect of radical immigration policies is unlikely to materialize.

The US economy is slowing, but it is not collapsing. US consumers are generally in good health, but they have little savings; however, their average debt is reasonable. The real estate market is no longer the driving force it once was. Rising prices in recent years and higher mortgage rates are preventing the average American and young people from buying homes. On the other hand, shelter prices are moderating, which will help lower the CPI, thanks to more favorable year-on-year comparisons.

In Europe, while industry is suffering, particularly in Germany, the services sector is doing well and benefiting from the trend towards globalization, unlike the goods sector. Fiscal stimulus, through increased defense spending, should also support growth; however, this has not always been the case in the past. European households have record savings, combined with low average debt, resulting in a significant consumption buffer. The ECB remains supportive as it reaches the end of its rate-cutting cycle. However, the effect of its policy is likely to be diluted compared with previous macroeconomic cycles, precisely because private sector debt is low.

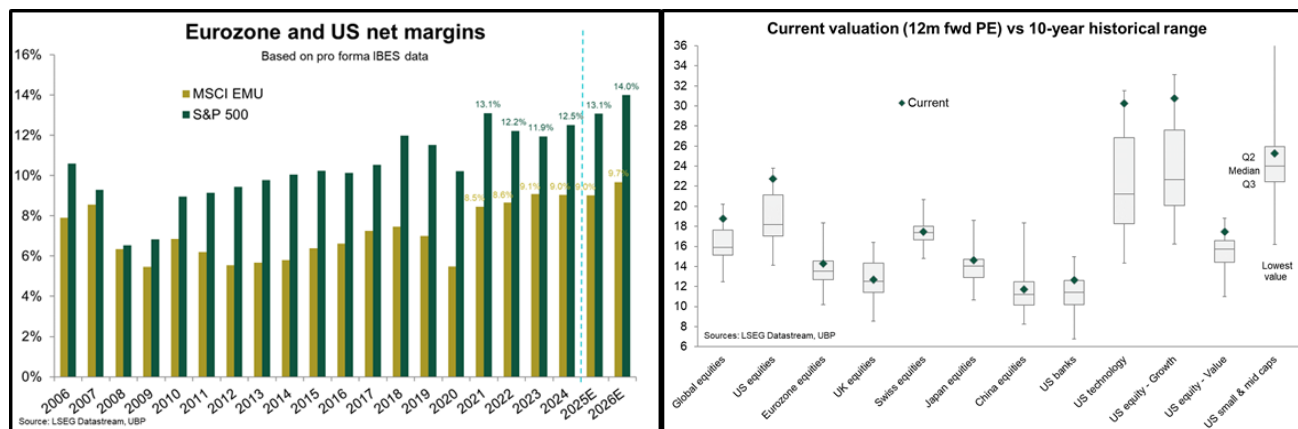
### Euro Zone Harmonised PMI Services





## A good earnings season

The earnings season is in full swing. For US companies, earnings growth expectations of 7% for the second quarter are generally expected to be easily exceeded, as the weaker dollar is expected to contribute between one and five percentage points of growth, all other factors being equal. The situation is completely reversed in Europe, where the strength of the single currency is likely to hurt earnings reports. This is weighing on sentiment, given that institutional investors still account for the majority of trading volume, unlike in the US, where retail investors have a significant impact on price movements.



Large US technology companies continue to contribute significantly to earnings growth, and this trend is expected to be confirmed again this quarter. Analysts expect margins to increase, primarily due to the adoption of artificial intelligence. However, it is worth noting that margins have already peaked in recent quarters. It implicitly means that investors believe the consumers will pay the tariffs. Margins will be closely monitored in the coming weeks.

Valuations are not holding back market gains; they do not matter. But one day they do. There are no signs on the horizon to suggest that we see a meaningful sector or style rotation. On the contrary, US retail investors are once again investing heavily in unprofitable companies, the last episode of this kind having occurred in 2021. Once again, despite the many uncertainties, nothing seems to be dampening the optimism prevailing in the equity markets.

## What is happening on the long end of the yield curve?

As mentioned above, credit spreads have returned to low levels. There is no stress, and bond investors are calm despite low visibility. Even CCC-rated bonds have seen their prices improve significantly in recent weeks. In this environment, corporate bonds are generally expensive and unattractive.

On the other hand, the main threat to the markets may come from government bonds. In many countries, the long end of the government bond curve is rising, particularly the very long end, spanning 10 to 30 years. This is starting in Japan. Following last year's loss of the lower house, the Japanese LDP finds itself in a difficult position with an unpopular Prime Minister, Mr. Ishiba, after losing the upper house elections. The latest auction for a 40-year government debt issue was unsuccessful, with a bid-to-cover ratio of 2.127,



amid a toxic environment marked by rumors of the prime minister's resignation. But it is not politics that is driving down the Japanese bond market; that is just a pretext. There is too much supply.

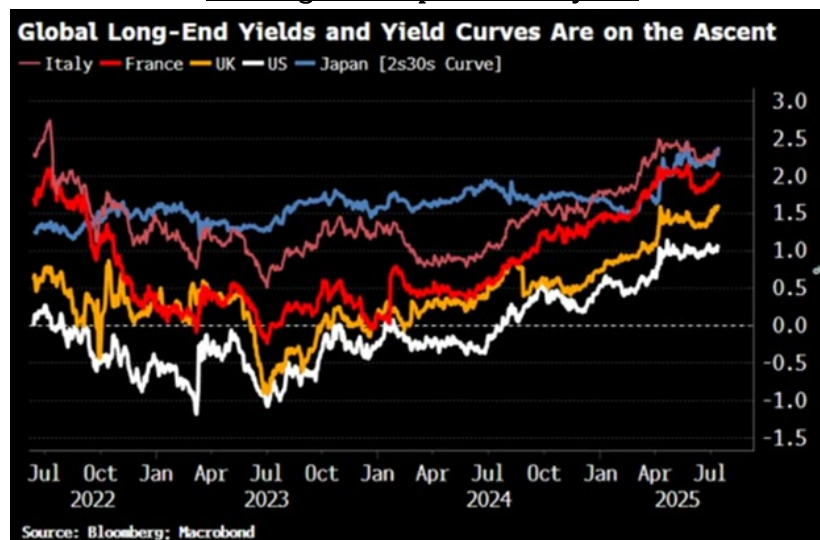
The yield spread between two-year and 30-year JGBs is now 1.5%. This means that investors are demanding a significant term premium to agree to invest in Japanese government bonds for the long term. Japan's poor public finances are well known. Now that the BOJ, which holds 50% of the government debt, is no longer buying 10-year and longer bonds, demand for these bonds is weak. Many analysts are quick to dismiss this as a situation unique to Japan, due to its complex political situation and the government's excessive long-term issuance. However, the recent upward move in long-term yields is not limited to Japan.

All yield curves are seeing a long-end rise. Japan is the most notable case, but in Europe and the US, 30-year bonds are approaching their highest levels in over two decades. Could this pose a problem for

the markets if it puts pressure on the banking system? Government bonds are considered safe assets on banks' balance sheets. Yes, but their price can move wildly. However, there is currently no sign of stress in the banking system; to the contrary.

The rise in ultra-long rates highlights a phenomenon that had been forgotten: the "term premium." In the 20th century, investors demanded a premium for long-term investments. It was the normal situation, because governments had a history of printing too much money, and supply was sometimes scarce. Investors wanted to be paid for these uncertainties. We are back there. It is a financial regime change, and it is a big story. The market is returning to old fundamentals. The yield spread between two-year and 30-year bonds is likely to continue widening, and yield curves are likely to steepen.

### Sovereign Yield Spreads 30-2 years





## Healthy consolidation

The yellow metal is in a consolidation phase. It seems to have anticipated the famous "Liberation Day." Since then, it has been trading more or less "flat". In April, gold was a "crowded trade" according to the BofA Fund Manager Survey, marking the first time since the bank began conducting its monthly survey 30 years ago. We were hoping for consolidation around USD 3,000/oz. Although prices did not fall that low, the three months of consolidation that followed eased the "overbought" situation for the yellow metal. Over the past 10 weeks, the price has been trading between \$3,250 and \$3,440, representing a range of less than 6% when considering intraday price fluctuations.

### Gold Oz Price







### **No correction if there is no catalyst**

Will the many contradictions surrounding the financial markets once again be resolved on the upside? Following the stunning market rally, despite a high level of uncertainty and a decline in institutional governance, such as that of the Federal Reserve, it is essential to remain vigilant. There is a sense of déjà vu reminiscent of 2007.

Currently, it appears that only a sustained rise in long-term rates (10-30 years) could spoil the party or serve as a pretext for a correction. Retail investors continue to invest in technology and artificial intelligence, where valuations already include a healthy dose of optimism (Meta and Microsoft Q2 earnings calls displayed impressive growth, though). Electrification and defense also remain promising themes, which can be played out in different ways and appear less risky. Defensive sectors such as staples and healthcare have underperformed over the past year. There are pockets of the equity markets that are ignored or shunned by investors. For example, valuations of large healthcare companies relative to the market are at their lowest since the beginning of the century, with top-quality balance sheets. Nevertheless, for prices to recover, a narrative will be needed; there is no sign of it for the time being.

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