INDOSUEZ WEALTH MANAGEMENT

CIO PERSPECTIVES

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Macro-market outlook: What to look out for this summer?

As summer approaches, markets find themselves navigating a mix of storm clouds and clearing skies. The sharp rebound following "Liberation Day" has shown the resilience of equities, led by the S&P 500, even as policy uncertainty and geopolitical risks linger. With US inflation cooling, the Federal Reserve (Fed) turning dovish, and global trade tensions easing, opportunities are emerging amid the volatility. In this special summer outlook, we explore the key risks, opportunities, and strategies to help you stay ahead in an unpredictable landscape. Buckle up—this season promises to be anything but dull.

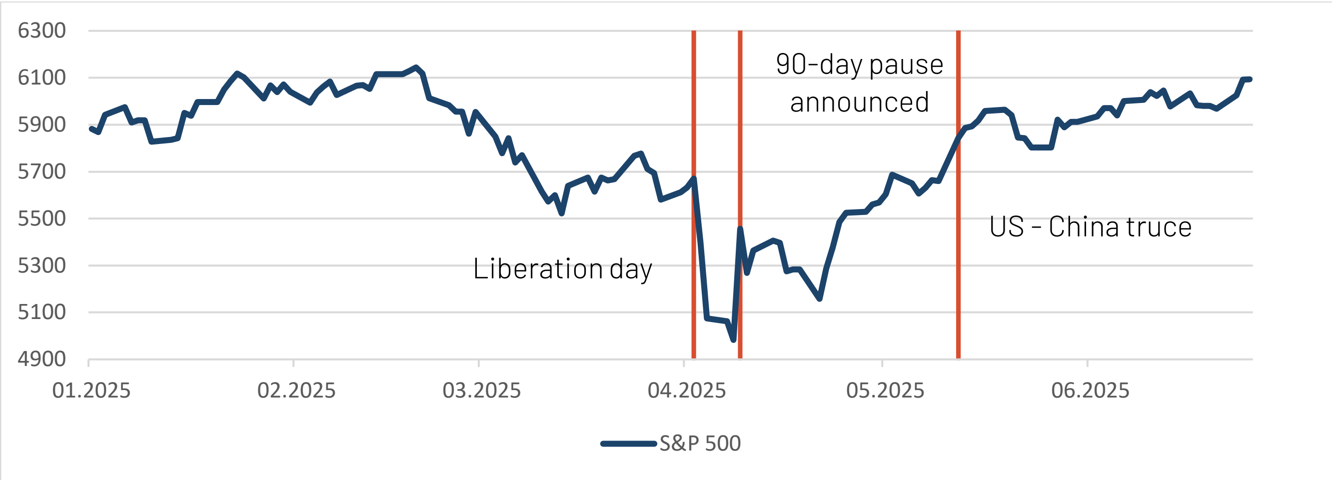
In a nutshell, our key takeaways:

- **After experiencing a sharp decline during "Liberation Day", equity markets, led by the S&P 500, rebounded thanks to easing trade tensions and the resilience of US economic data. However, political uncertainty remains elevated.**
- **The US dollar continues its downward trend.**
- **Recent economic indicators have alleviated fears of a pronounced slowdown. However, the US economy remains caught between signs of labour market deceleration and stronger-than-expected output figures.**
- **US inflation has been weaker than expected for four consecutive months, despite the introduction of new tariffs. In our view, these tariffs are unlikely to significantly impact inflation until the second half of 2025, when we anticipate a temporary rise above 3%. This is expected to have limited second-round effects on wages.**
- **Against this backdrop, we believe the Fed will adopt a more accommodative stance. We forecast two rate cuts in 2025 and two additional cuts in 2026, bringing the upper bound of the Fed Funds rate to 3.5% by the end of 2026.**
- **Looking ahead, we anticipate 2025 to be another strong year for equities, supported by economic resilience and monetary easing. That said, summer risks remain: tariff uncertainty (9 July), central bank meetings (mid-July) preceded by US inflation and employment data, and geopolitical tensions surrounding Organization of Petroleum Exporting Countries (OPEC) and World Trade Organization (WTO) meetings in July, all of which could increase market volatility in the coming weeks. As a result, we favour strategies to either mitigate volatility (e.g., investments in gold, high-quality bonds, or structured products) or capitalise on it when the timing is right (e.g., maintaining liquidity).**
- **We favour European and emerging market equities, which, in our view, currently have greater fiscal and monetary flexibility. Additionally, we remain constructive on European credit, supported by strong fundamentals and attractive spreads.**

A Storm, Then Sunshine: Markets Recover Post- "Liberation Day"

After a flash correction in the wake of "Liberation Day", equity markets have regained strength, supported by easing trade tensions and the resilience of the US economy (predictive markets now assigning a probability of a US recession just a 25% chance, down from 65% in early May). Despite renewed geopolitical concerns in the Middle East, markets have shown remarkable stamina, with the S&P 500 inching closer to its historical highs (Chart 1).

Chart 1: S&P 500 climbs back to record territory



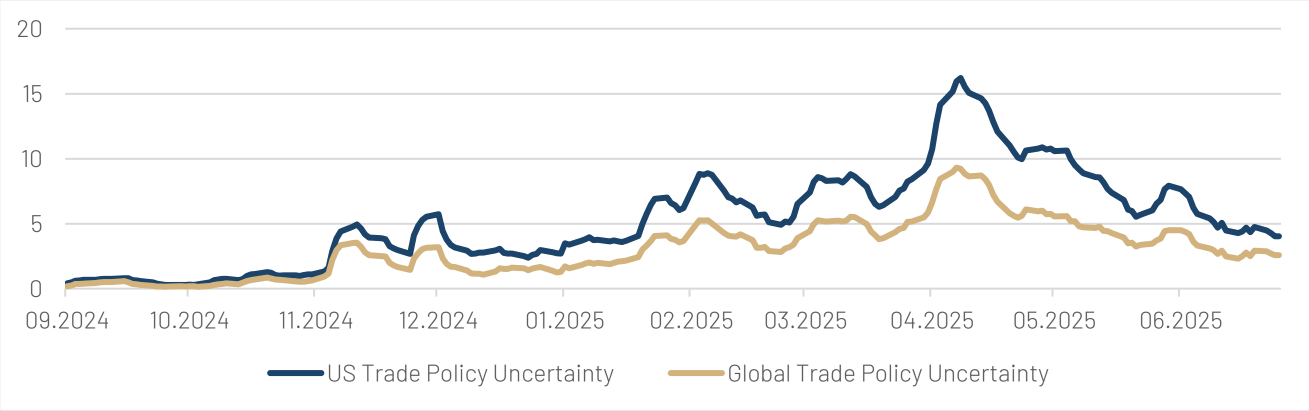
Source: Reuters, Indosuez Wealth Management.

Clearing Skies: data offers reassurance on downside risks

Recent macroeconomic developments have proven broadly reassuring, easing fears of the more extreme downside risks that surfaced in H1 2025 when markets first absorbed the unexpected magnitude of Donald Trump's tariff policy. Post-"Liberation Day", economic uncertainty soared, confidence surveys plummeted, and fears of recession surged. Yet **the Trump administration has since lightened its disruptive agenda**, striking a trade truce with China and **introducing more growth-friendly policies**—namely, a budget focused on near-term tax cuts and spending increases, with austerity delayed until later. These measures should help support growth through 2026.

As a result, confidence surveys have bounced back slightly, and both consumption and employment have remained steady amid ongoing economic uncertainty (Chart 2). Additionally, **US inflation surprised to the downside for the fourth consecutive time in May 2025**, despite the February tariff hikes—an encouraging signal that could pave the way for a more dovish Fed in the near-term.

Chart 2: Uncertainty remains high but has stabilised

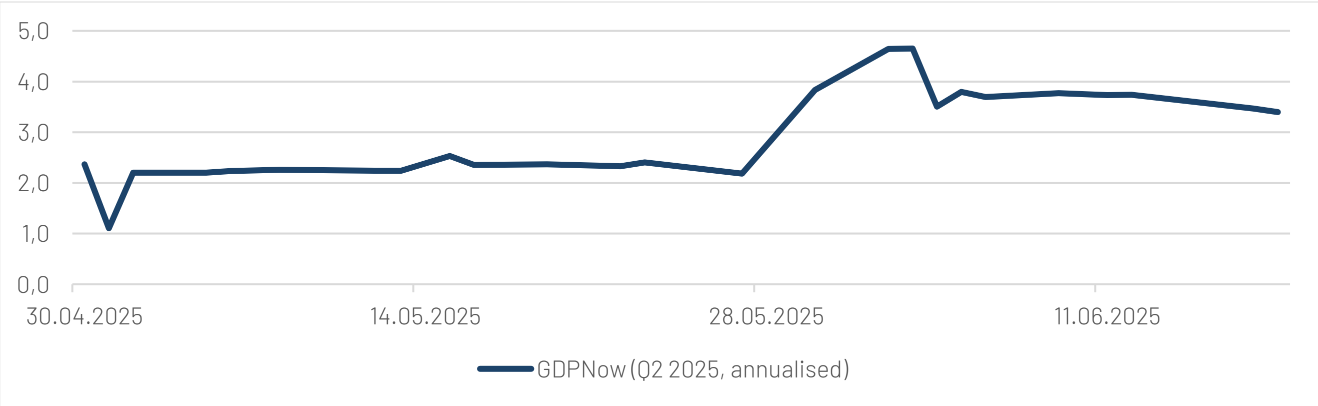


Source: Reuters, Indosuez Wealth Management.

A "Goldilocks" Forecast? Growth Holds, Inflation Cools

The current conditions are beginning to resemble a "Goldilocks" scenario—dynamic US growth, slowing inflation, and the prospect of faster-than-expected rate cuts. Despite economic and political uncertainty, the US economy remains surprisingly robust (Chart 3). Real-time Q2 GDP (excluding trade and inventories) is tracking just under 2%. If growth once again outperforms—as it did over the past two years—it could further support markets.

Chart 3: Economic activity remains surprisingly resilient



Source: Bloomberg, Indosuez Wealth Management. (GDPNow: A real-time estimate of US GDP growth based on published data).

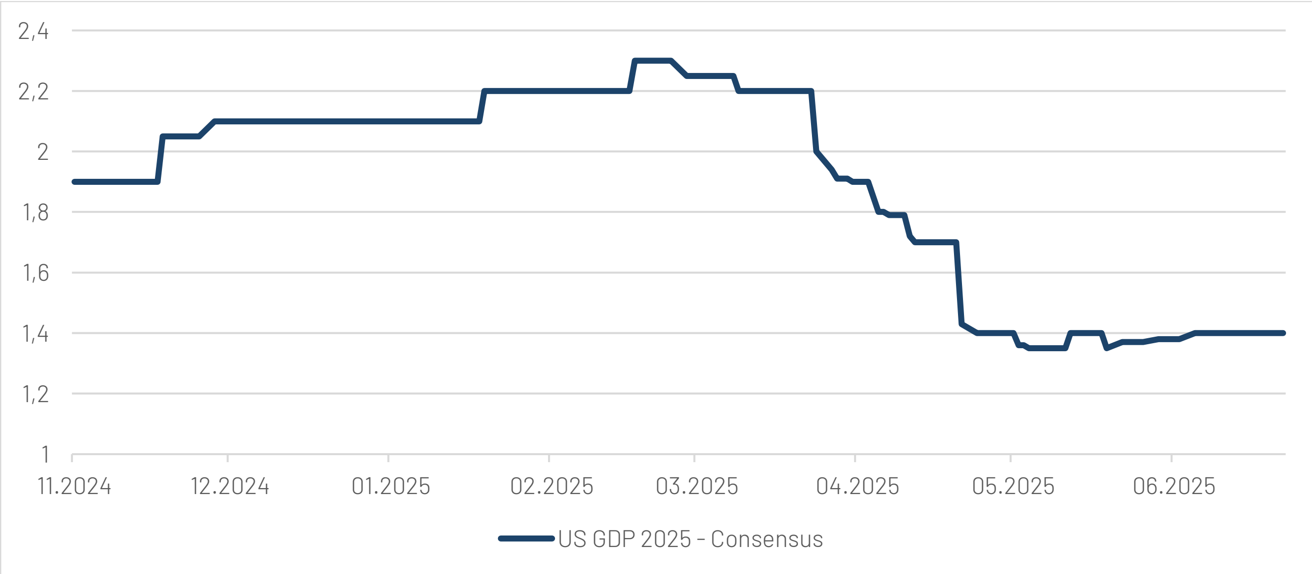
Inflation has dipped below 2.5% year-on-year (YoY) this year, driven by a slowdown in services inflation and limited pass-through from tariffs to goods prices. Still, the US economy finds itself at a crossroads—caught between incoming tariff-driven inflation and a softening labour market. We expect inflation to rise above 3% in H2 2025 as tariffs gradually feed through. So far, businesses have largely absorbed the tariff shock, compressing margins and benefiting from inventory stockpiles built in Q1. **We expect this inflation bump to be temporary for three reasons:**

1. US consumer and market inflation expectations remain anchored under 3% in the next three/five years.
2. The labour market is showing early signs of weakening, and we expect this to continue due to slowing consumption, margin pressure from tariffs, and hiring hesitation amid uncertainty. Therefore, we do not expect these price hikes to press on wages (second-round inflation effects).
3. This short-term inflation spike should weigh on real wages and, in turn, slow consumer spending and US activity.

In this context, we believe the **Fed will continue cutting rates** through H2 2025—two additional cuts in 2025 and two more in 2026—aiming for policy normalisation by end-2026 with a Fed Funds rate of 3.5% (upper bound).

These dynamics open the door to more constructive market scenarios. Financial market analyst's growth expectations have been significantly downgraded in recent weeks, most likely too far (Chart 4). If the US economy proves more resilient than anticipated, risk assets could get a second wind of support—especially as sentiment and positioning indicators are still light. Further downside surprises on inflation could also lift markets by accelerating the expected Fed easing cycle.

Chart 4: US growth expectations have dropped sharply



Source: Bloomberg, Indosuez Wealth Management.

Summer Storms Ahead? Key risks (and opportunities) loom

That said, we are approaching summer conscience of the potential risks ahead—especially on US equities given the rapidity of the recovery—ready to reposition on market pullbacks. Volatility risks are indeed looming on the summer horizon:

- **3 July: US unemployment rate (June).** While inflation trends have been comforting, recent upticks in continued jobless claims and household/business surveys suggest the jobs market could weaken further.
- **4 July:** Independence Day and target deadline set by Trump for US budget talks.
- **6 July: OPEC August output meeting.** Geopolitical tensions between Iran, Israel, and the US have eased, but the potential closure of the Strait of Hormuz remains the key pending risk. Despite this, oil prices are likely to stay below 80 dollars, driven by OPEC's easing of voluntary output cuts, a responsive US shale supply, and a weaker global demand outlook compared to 2024.

- **9 July: end of the pause on Trump-announced tariffs**. Currently sidelined but may return given the unpredictability of the current US administration. Markets expect Trump to water down measures (TACO[1]). This is not always the case. Although reluctant to do so, the European Commission has announced retaliation measures effective from **14 July**, if no deal is reached by then. In this context, the **WTO general council meeting on the 22-23 July** will also be a notable summer event. **US Treasury Secretary Scott Bessent states that key US trade deals could be finalized by 1 September.**

[1] TACO: Trump Always Chickens Out.

- **15 July: US inflation (June).** Higher than expected US inflation from tariffs this summer could delay Fed rate cuts if the labour market remains tight. Coupled with budget concerns and debt sustainability questions, this might push long-term US yields higher—tightening financial conditions and weighing on both growth and risk assets. This would be a challenging backdrop for both equities and bonds.
- **23 July: ECB meeting.** President Lagarde's remark in June that the ECB is in a "good position to face uncertainty" suggests a pause in rate cuts in July, with a possible cut in September. We still expect rates at 1.75% by year-end, though a July cut would boost markets.
- **29-30 July: The Federal Open Market Committee (FOMC).** A Fed rate cut in July, although unlikely in our view, would surprise markets positively.
- **22-24 August: Jackson Hole Symposium.** Any future hints on autumn monetary policy divergence and possible new Fed Chairman could once again steer equity and currency markets in either direction.
- **15 August and 3 October:** potential breach window (according to the Bipartisan Policy Center) on the debt ceiling which could resurface.

Preparing for the Summer Storm

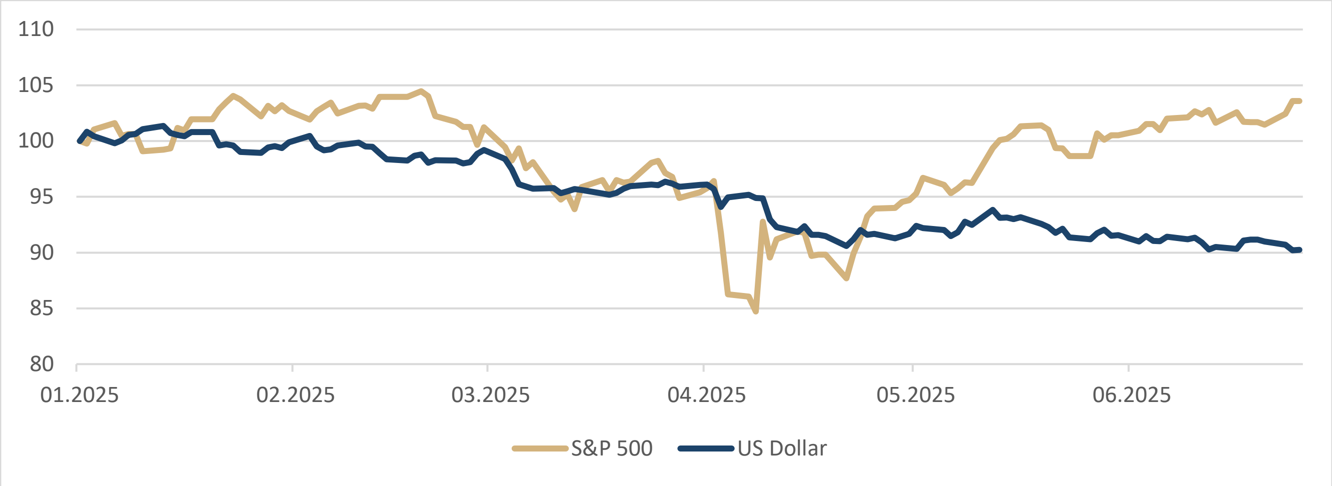
2025 is shaping up to be a promising year for equities, supported by resilient economic activity and interest rate cuts. That said, summer risks remain and could heighten market volatility in the weeks ahead. After the recent rebound, markets may become more sensitive to growth-related disappointments. As a result, we believe it is prudent to implement strategies that either mitigate volatility (e.g., investments in gold, high-quality bonds, or structured products) or take advantage of it when the timing is right (e.g., maintaining liquidity).

In this uncertain environment, monetary and fiscal policy appears to be more supportive in China and Europe compared to the United States. China has implemented fiscal stimulus equivalent to over 1% of GDP, while Europe is planning additional fiscal measures for 2026. Both regions also continue to pursue monetary easing policies. As such, our asset allocation framework favours these two regions over the US.

On the Fixed Income side, we prefer the short end of the curve, as long-end yields remain volatile and vulnerable to debt sustainability concerns and the rebuilding of term premia—especially in the US.

We have strong conviction in European credit, supported by robust fundamentals, attractive yields, and low volatility. As the yield differential with money markets widens, the segment should continue attracting flows. Finally, we maintain a bearish view on the US dollar, which has recently shown weak diversification benefits (Chart 5). While this has become more consensual among market participants, portfolio flows show increasing hedging on the US currency. If US inflation comes in higher than expected, the US dollar could regain appeal as a hedge, but we continue to favour gold as a diversifier—thanks to strong central bank demand and its resilience during geopolitical and fiscal stress.

Chart 5: The dollar's hedge appeal has faded



Source: Reuters, Indosuez Wealth Management.

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