BANQUE
ERIC STURDZA

MONTHLY NEWSLETTER
JUNE 2025

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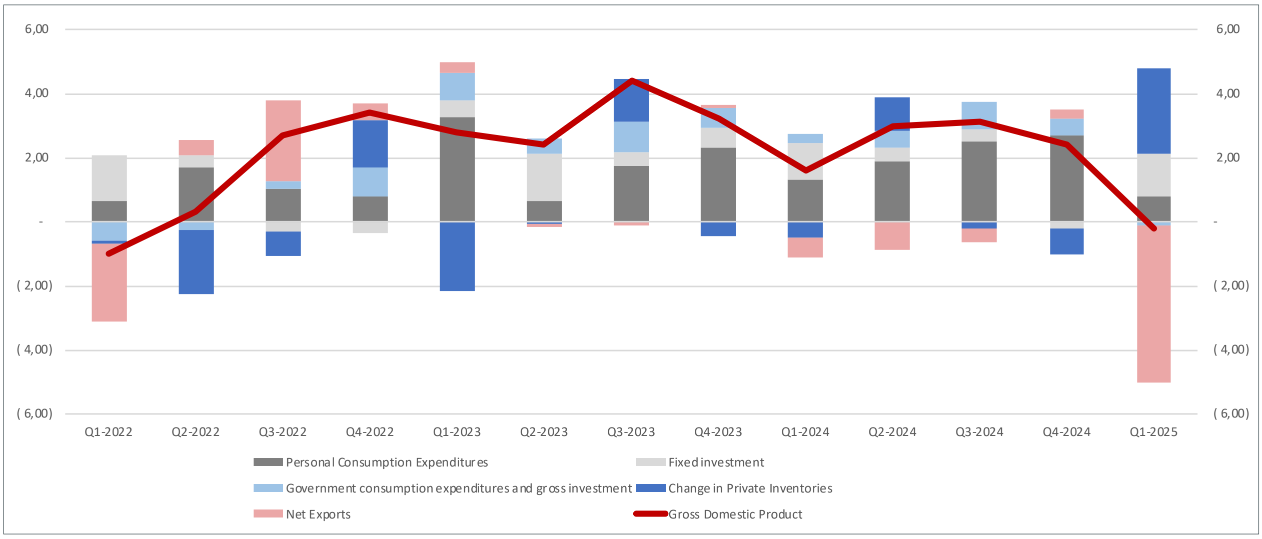
1. EDITORIAL

ONE STEP FORWARD, TWO STEPS BACK...

That's how we might sum up the current sequence of events. Remembering that on April 2nd, Donald Trump shocked the world by unveiling universal tariffs on goods imported into the United States. Very few territories were spared, even the Heard & MacDonald Islands (although inhabited only by penguins) were affected; more fortunate V. Putin's Russia, was amongst the few countries spared.

It then took just a week for Donald Trump, under pressure from the markets and certain key members of his administration such as Treasury Secretary Scott Bessent, to backpedal and decide a 3-month pause. With US long-term interest rates beginning to soar, the wake-up call had been loud. At that stage, only China, engaged in a full fledged trade war with the United States, not concerned by the freeze. For China to benefit from a similar break, market participants had to wait until the beginning of May and an extraordinary summit between the two super-powers in Geneva. The deal resulted in a reciprocal 115% reduction in customs duties between the two countries over the next three months: US exports to China were now taxed at 10%, and those from China to the United States at 30%. However, the situation may prove a little cumbersome as this reduction does not apply to tariffs already in place before "Liberation Day". Nonetheless, this was all it took for equity markets to continue their recovery. At the end of the month, the S&P500 was only 5% off its high mark, while the STOXX600 in Europe only 3% down. It is worth remembering that this "pause" may only prove temporary, and if no agreement is reached within three months, the previously announced tariffs will come into effect. Donald Trump's unpredictability and the use of tariffs on a wide range of issues (not all trade related) are contributing to a climate of uncertainty. Europe experienced this briefly too: they were threatened with 50% tariffs by June 1st before an opportune call between Ursula Von der Leyen and Donald Trump helped to de-escalate the situation

G1: US GDP and various components



Source: Bloomberg, NBER

and return to the status quo of before. Ironically, as we write these lines, judges at the US court of International Trade just invalidated the tariffs announced on Liberation Day on the grounds that they should have required congressional approval. While appeals are far from exhausted and the Trump administration still has other options, this episode underscores that the peak of trade tensions is likely behind us.

The release of the Q1 GDP also highlighted the disruption caused by Trump's trade policies and the fragility of the situation. A 0.3% decline in economic activity over the 1st quarter is a figure in itself not that worrying, but above all it is the impact of external trade that remains of particular concern, it shaved off more than 4 percentage points of GDP growth as a result of the drastic increase in imports. This deterioration reflects the decision by a number of economic agents to "front-run" potential tariffs. The disruption is also reflected in a sharp increase in inventories. While the pause in the implementation of customs duties is still underway, there is every chance that the disruption could persist into the 2ndquarter and further disrupt economic activity, just as a potential de-stocking could amplify it.

The rise in US long-term interest rates also remains a risk and warrants a degree of caution. While the pause announced on April 9th helped to stabilise US long-term yields, they began to rise again in May against a backdrop of mistrust in US debt, a phenomenon amplified by weak demand at the May 21st auction, which temporarily pushed 20-year and 30-year yields above 5.0%. In this context, Moody's downgrading of US sovereign debt is not helping either, nor is the rise in Japanese long-term rates, which is making US Treasury bonds less competitive for Japanese institutional investors. As the Congress prepares to vote on the "Big Beautiful Bill", which implements Trump's election promises, the subject could quickly come back into the spotlight, given the size of the bill (almost USD 5 trillion over the next decade) and the fact that its funding remains uncertain, to say the least. The risk of a slide in long-term interest rates is once again haunting the financial markets.

In this uncertain environment, to say the least, cautiousness remains the name of the game at least in the short run. Volatility, which exploded in April, quickly returned to normal, but there is no guarantee that it will not spike again this summer. The risk of long-term interest rates drifting higher is also good reason to remain cautious. US equity markets so far remained unaffected by the rise in long-term interest rates, but there is no guarantee it will be the case forever, especially as high multiples and sluggish earnings growth make US equity markets look even more fragile.

2. FIXED INCOME
TSUNAMI ON LONG RATES

A Fed with its boots on

Jerome Powell validated the stagflation scenario without actually naming it. He stressed that the risk of a simultaneous rise in unemployment and inflation had increased, while admitting that this risk had not yet materialised. By pointing out that the Fed has a dual mandate (controlled inflation and full employment) and that it therefore keeps a close eye on inflation and growth, he justified the central bank's position. What the Fed sees is an economy that is not slowing down, at least according to the hard data. It is only the sentiment indices (soft data) that suggest a slowdown, and historically there have been occasions when hard and soft data have not been on the same wavelength. While Core inflation is sending out clear signals of a decline, the uncertainties surrounding tariff policy are so great that they are wiping out the positive effects recently seen, prompting the Fed to adopt a "wait and see" stance. Finally, as far as interest rates are concerned, current levels are appropriate and the Fed wants to give itself time to get a clearer view of the situation. In these conditions, the FOMC is not in a position to say today whether it will be necessary to cut rates this year.

Japanese long rates, the canary in the mine?

As we approach the halfway point of the year, we are wondering what the second half of the year has in store for us. Stagflation is here to stay, and in the short term it will probably be dominated by "inflationary fears". We will therefore have to assess the risk of a change in market sentiment in favour of a "slowdown strong enough to solve the inflation problem on its own" scenario. This means that the recent pressure on US interest rates is starting to offer some potential investment opportunities. US long-term yields rose sharply when an auction of 20-year Treasury bonds went very badly. In Japan, it was an auction of 20-year JGBs that set things alight. We haven't seen such a catastrophic auction since... 1987! Many observers agree that this episode marks the definitive end of the long period (since the great crisis of 2008) that was favourable for investment, thanks to low rates that made it possible to take on cheap debt in order to invest. We are not so pessimistic, however, because while very long rates (20 and 30 years) have undergone a major correction, the short end of the curve has little changed. In the United States, the 2-year rate has stabilised at around 4%, the 5-year at 4.1% (we have increased our position at this level) and the 10-year at 4.5%. And while high-duration investors were panicking, our euro-denominated hybrid debt was quietly hitting an all-time high.

3. EQUITIES
RESILIENCE

For those who have not been following the equity markets since the start of the year: Yes, we are almost at the same level, close to all-time highs, but a lot has happened in the last 5 months! Since Trump's inauguration, the new (and former) US President has been unleashing an avalanche of announcements and impactful decisions on the entire world, both economically and geopolitically. What is most surprising at the moment is the resilience of the financial markets.

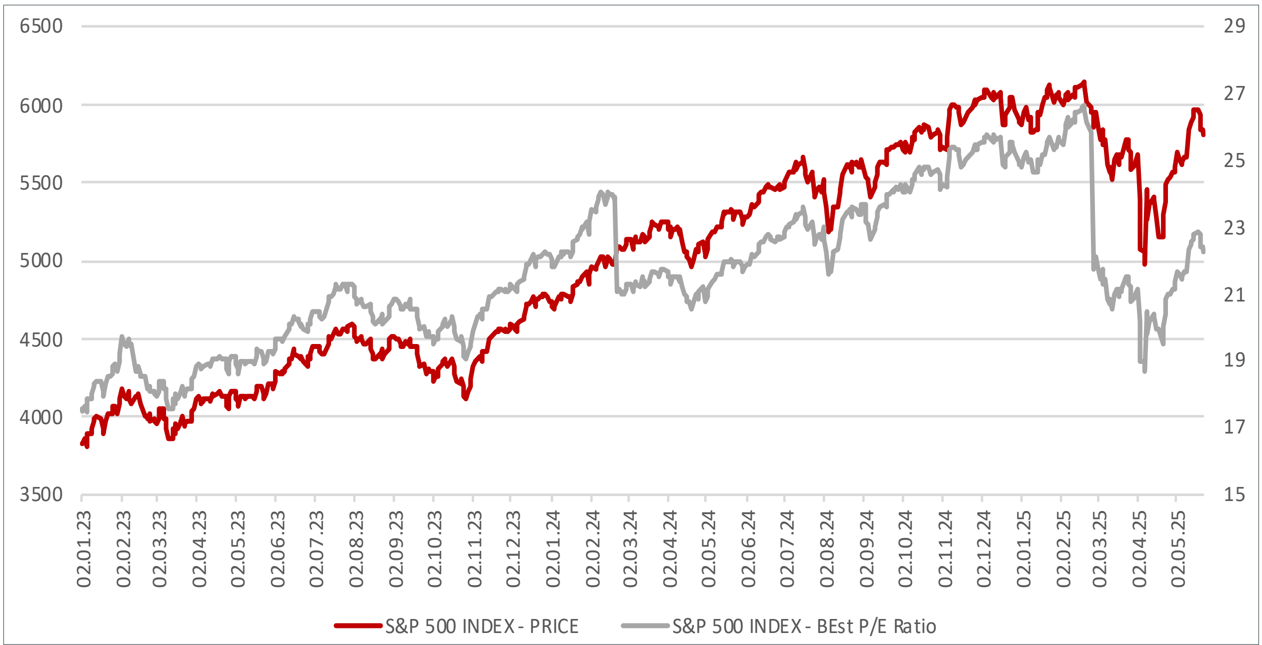
First of all, it is interesting to understand what this word means. In its common definition, "*Resilience is a psychological phenomenon which consists, for an individual affected by a trauma, in taking note of the traumatic event so as not to live, or no longer to live, in misfortune and to rebuild oneself in a socially acceptable way*".

We are well on the way to historical highs, with equity valuations (S&P500 Best Price Earning: 23.5x) close to the excessive ratios seen at the start of the year, particularly in the US (see chart 2).

This is all the more disturbing given that profit growth expectations for the 500 largest US companies for the current year have fallen from 13% in January to 7% today. Tariffs, even if delayed by a few weeks, are still on the table. Trump remains very committed and intransigent, focused on his ultimate goal ("Make America Great Again") even though certain economic experts and indicators tend to disqualify his plans.

So how do we explain this renewed optimism and the gap between economic rationales and equity markets?

G2: S&P500 Index vs. S&P500 East P/E



Source: Bloomberg, Banque Eric Sturdza

An initial response could be linked to expectations of rate cuts by central banks. Although the US Federal Reserve is proving that it remains totally independent of Trump, it could be more docile if the US economic outlook were to deteriorate further, even if inflation is not back on target. As for the ECB, rates have already been cut and the markets are expecting a further 2 cuts this year. With an economic recovery (albeit moderate), limited structural growth prospects and inflation slowing, C. Lagarde seems better positioned than her counterpart on the other side of the Atlantic.

Then there were the corporate results for the first quarter, which showed resilient earnings and even positive surprises in some sectors (S&P 500, Earning surprise Q1 2025 +8.5%). The consumer discretionary, financials and communications sectors (notably Uber, Meta and Disney) did very well over the quarter and made a very positive contribution to the overall positive situation.

On the global geopolitical front, despite persistent tensions, the environment has remained relatively stable in recent months, with no major escalations (Ukraine, Middle East, Taiwan), prompting investors to focus more on risk and more microeconomic indications, which are reassuring at this stage.
As a result, equity markets reached technical lows, especially in the United States. These areas of excessive overselling (RSI below 30) triggered a major rebound, amplified by automated or passive management methods.

And finally, we could also mention an underlying trend, one that offers a positive opening for future growth and which is benefiting from an often very optimistic flow of information: Artificial Intelligence. More than just a fad, it is taking root in companies and in people's minds. The enthusiasm surrounding Nvidia, Microsoft and many other companies continues to attract flows and expectations (hopes) of growth as well as fuelling high valuations.

A feeling of "déjà vu", here we are back in a situation similar to that at the beginning of the year, with a dichotomy between US valuations, fundamentals and major uncertainty surrounding tariffs and their impact on the global economy. This is coupled with a US President as determined as he is unpredictable, and a US economic situation that seems to be showing signs more of limitations than of prosperity with the approaching colossal government debt maturities and rising interest rates. Since the start of the year, we have believed that Europe offers greater visibility and opportunity. We are using periods of high volatility to build asymmetrical solutions, offering optimised returns with controlled risk without excessively modifying our allocations.

5. PERFORMANCES

EQUITIES	30.05.25	CURRENT	1 M	3M	6M	YTD	2024	2023	2022	2021	2020
US	DOW JONES	42 270	3,9%	-3,6%	-5,9%	-0,6%	12,9%	16,2%	-6,9%	20,9%	9,7%
	S&P 500	5 912	6,2%	-0,7%	-2,0%	0,5%	23,3%	26,3%	-18,1%	28,7%	18,4%
	S&P500 EW	7 142	4,2%	-2,0%	-5,9%	0,6%	10,9%	13,8%	-11,5%	29,6%	12,8%
	NASDAQ 100	21 341	9,0%	2,2%	2,0%	1,6%	24,9%	55,1%	-32,4%	27,5%	48,9%
	RUSSELL 2000	2 066	5,2%	-4,5%	-15,1%	-7,3%	10,0%	16,9%	-20,5%	14,8%	19,9%
EUROPE	STOXX 600	549	4,0%	-1,5%	7,5%	8,1%	6,0%	16,6%	-9,9%	25,8%	-1,4%
	FTSE 100	8 772	3,3%	-0,4%	5,9%	7,3%	5,7%	7,7%	4,6%	18,4%	-11,4%
	CAC 40	7 752	2,1%	-4,4%	7,1%	5,0%	-2,2%	20,1%	-6,7%	31,9%	-5,0%
	SPI SWISS	16 850	2,3%	-1,7%	7,5%	8,9%	6,2%	6,1%	-16,5%	23,4%	3,8%
ASIA	TOPIX	2 802	5,0%	4,5%	4,5%	0,6%	17,7%	28,3%	-2,5%	12,8%	7,4%
	HANG SENG	23 290	5,3%	1,5%	19,9%	16,1%	17,7%	-10,5%	-12,6%	-11,8%	-0,2%
	CSI 300	3 840	1,8%	-1,3%	-1,9%	-2,4%	14,7%	-9,1%	-19,8%	-3,5%	29,9%
FX & COMMODITIES	**30.05.25**	**CURRENT**	**1 M**	**3M**	**6M**	**YTD**	**2024**	**2023**	**2022**	**2021**	**2020**
CURRENCIES	EUR-USD	1,135	0,2%	9,4%	7,3%	9,6%	-6,2%	3,1%	-5,9%	-6,9%	8,9%
	EUR-CHF	0,933	-0,3%	-0,4%	0,1%	-0,7%	1,2%	-6,1%	-4,6%	-4,0%	-0,4%
	USD-CHF	0,822	-0,4%	-8,9%	-6,7%	-9,4%	7,8%	-9,0%	1,3%	3,1%	-8,4%
	USD-JPY	144,0	0,7%	-4,4%	-3,8%	-8,4%	11,5%	10,5%	13,9%	11,5%	-4,9%
	USD INDEX	99,33	-0,1%	-7,7%	-6,1%	-8,4%	7,1%	-2,1%	8,2%	7,0%	-7,3%
COMMODITIES	Gold	3289,25	0,0%	15,1%	24,4%	25,3%	27,2%	13,1%	-0,3%	-4,2%	25,0%
	Silver	32,98	1,1%	5,9%	7,7%	14,1%	21,5%	-0,7%	2,8%	-13,6%	48,7%
	WTI Crude Oil	60,79	4,4%	-12,9%	-10,6%	-15,2%	0,1%	-10,7%	6,7%	59,1%	-21,5%
	Natural Gas	3,45	3,6%	-10,1%	2,5%	-5,1%	44,5%	-43,8%	20,0%	46,9%	16,0%
	Copper	9548,08	4,7%	2,2%	7,4%	10,3%	2,2%	0,9%	-14,1%	25,7%	26,0%
FIXED INCOME	**30.05.25**	**CURRENT**	**1 M**	**3M**	**6M**	**YTD**	**2024**	**2023**	**2022**	**2021**	**2020**
RATES	US 10 year gvt	4,40	0,24	0,19	0,23	(0,17)	69 bps	0 bps	237 bps	60 bps	-100 bps
	German 10 year gvt	2,50	0,06	0,09	0,41	0,13	34 bps	-54bps	275 bps	39 bps	-38 bps
BONDS	Global Aggregate USD hdg.	590,8	-0,3%	0,2%	1,0%	1,8%	3,4%	7,1%	-11,2%	-1,4%	5,6%
	US Treasuries	2347,7	-1,0%	-0,2%	0,9%	2,5%	0,6%	4,1%	-12,5%	-2,3%	8,0%
	US TIPS	361,0	-0,6%	0,2%	2,0%	3,7%	1,8%	3,9%	-11,9%	6,0%	11,0%
	US IG Corporates	3363,9	0,0%	-0,3%	0,3%	2,3%	2,1%	8,5%	-15,8%	-1,0%	9,9%
	US High Yield	2755,0	1,7%	0,6%	2,2%	2,7%	8,2%	13,4%	-11,2%	5,3%	7,1%
	Euro Government	245,1	0,1%	0,2%	-0,5%	0,8%	2,0%	7,1%	-18,2%	-3,4%	4,7%
	Euro IG Corporates	261,9	0,5%	0,5%	1,2%	1,5%	4,7%	8,2%	-13,6%	-1,0%	2,8%
	Euro High Yield	489,0	1,5%	0,4%	2,8%	2,1%	9,1%	12,8%	-11,1%	4,2%	1,8%
	EM USD Aggregate	1285,2	0,7%	0,3%	1,7%	3,0%	6,6%	9,1%	-15,3%	-1,7%	6,5%

Source: Bloomber, 30/05/25

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