



BANQUE
ERIC STURDZA

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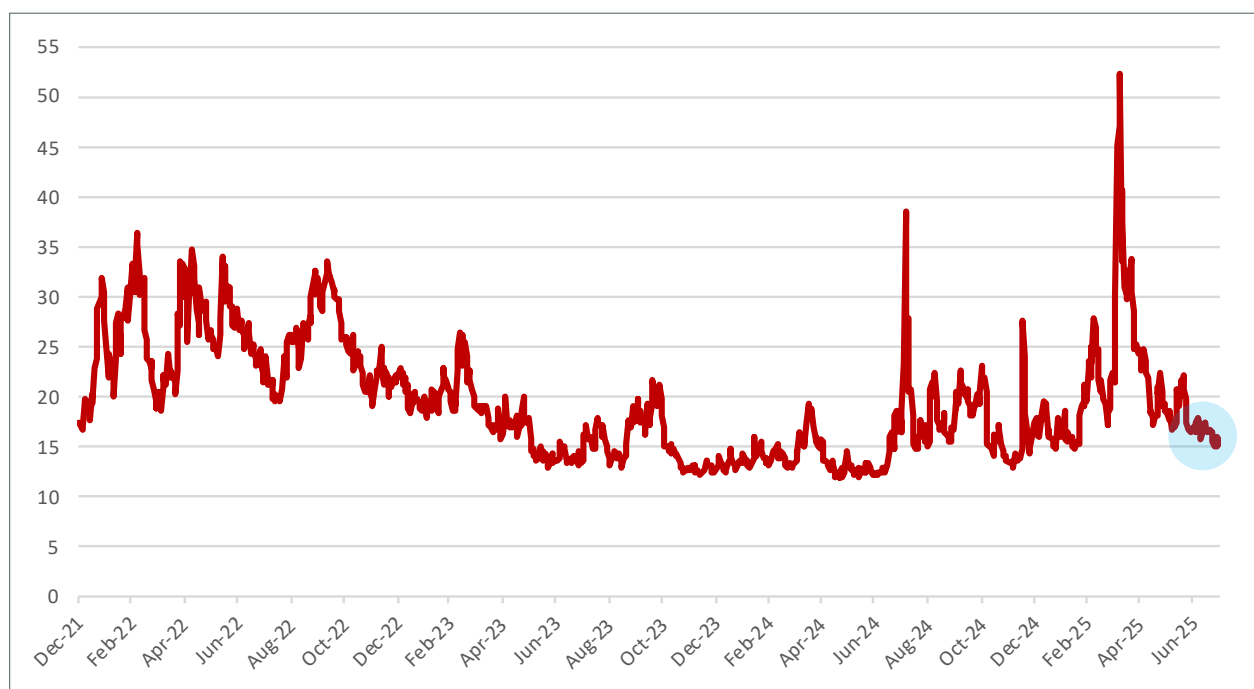
1. EDITORIAL

WHO WILL BE THE NEXT TO GO TO CANOSSA?

The expression takes on its full meaning after Ursula von der Leyen's visit to Donald Trump at his golf course in Turnberry, or in light of the 39% tariffs that the United States is threatening to impose on Switzerland. It is difficult to make predictions, especially about the future. Often quoted, this phrase has been attributed to Danish wisdom, Niels Bohr, Mark Twain and Pierre Dac, among others. Despite its uncertain origin, the saying remains timeless when it comes to anticipating market trends. Donald Trump and his constant U-turns are giving it a new lease of life, while forecasters – even the most prestigious ones – are chasing news that always seems to elude them.

Goldman Sachs' star strategist had accustomed us to changing his market forecasts twice a year on average for many years, but in the last three months he has already made four adjustments! It is true that a month ago investors were focused on Iran, a week ago on corporate earnings and the possible forced departure of Jerome Powell, and at the end of the month on the "historic" trade agreements signed by Japan and the European Union with the United States. Nevertheless, it is clear that the steady newsflow seems to require constant adjustments.

G1 : VIX INDEX (S&P500 IMPLIED VOLATILITY)



Source : Bloomberg, Banque Eric Sturdza, 31/12/21 to 30/07/25

Since Donald Trump's inauguration, we have taken a somewhat opposite approach, making few changes to our allocations. This was a bold choice at first, but ultimately a wise one, as it has allowed us to avoid a few missteps. As the months of August and September were getting closer (two months that have historically proven to offer poor returns for global equities, with on average returns of -0.3% and -1.5% over the last 25 years), a review of our strategic stance nevertheless seemed more appropriate.

If we look back at the saga of the Trump tariffs, we started from a "pre-Trump" era where the "average" customs duty in the United States was 2.8%; during the transitional phase (from May 2025 to date), the average tariff climbed to 15%; and even if it is difficult to forecast the final figure, it is hard to see it landing much below 15% given the agreements negotiated with Vietnam, Japan and the EU. After the initial shock caused by Donald Trump's announcements, the markets have become more resilient, regaining lost ground and in some cases making new highs, even though it is now almost certain that the impact of tariffs on the economy will be meaningful.

With less palpable concern and fairly complacent technical indicators, financial markets are entering the summer with a surprising serenity: greed is far outweighing fear, and we are even seeing a resurgence of parabolic rises in US stocks, driven by retail investors and unscrupulous stock market websites (remember the Gamestop story a few years ago, which rattled the financial community but turned out to be in hindsight a good overheating indicator).

Another testimony of these reckless behaviors prevailing in the US markets and among retail investors, is the performance of the GS index of unprofitable technology stocks (yep there are now indices on everything!) that gained 70% since last April.

Reflecting this high level of market confidence, options are now very cheap, with the VIX index (a gauge of the S&P500 implied volatility) at almost its lowest level of the year.

We felt it was appropriate to partially secure some of the equity gains achieved this year by spending a small premium on market hedging. Was this a second choice that lacked courage? The small fraction of profits to be invested in order to get through the summer with peace of mind seemed attractive at a time when US stock valuations are particularly stretched.

** Source Cahiers Verts*

2. FIXED INCOME

A CASE FOR QUANTITATIVE EASING

Is Trump on the wrong track?

In his repeated attacks against Jerome Powell, Donald Trump is pushing him to make large cuts and to lower the Fed fund rate to 1%. In our view, he is making two mistakes. First, he is attacking the Fed too aggressively when it has little to be ashamed of, at least for now. The uncertainty created by tariffs and their impact on inflation remains a major risk on the horizon and the US economy is not going to slide into recession or start a hard landing in the short term. Under these circumstances, an ultra-accommodative policy (we are talking about rate cuts of 200 to 300 basis points) seems totally inappropriate.

His second mistake is to be obsessed by short term rates. Scott Bessent, his Treasury Secretary, recently corrected this by explaining that his benchmark was actually the yield on the 10-year T-Notes. We find it surprising that Trump and his administration are so focused on attacking Jay Powell on issues that we consider secondary, while no one in the Republican camp has yet flagged the real issue aka real interest rates that are way too high. After the Covid years (2020-2021), which were marked by deflationary pressures, real rates have returned to positive territory and today the real yield on 10-year TIPS stands at 2%. To give a breather to the US economy, these real rates will need to fall back quickly to around 1% (as close to zero as possible), but fortunately, unlike those in the Eurozone, they are already below the potential growth level, which is a lesser evil.

Quantitative easing in the autumn!

If we were to criticize the Fed, we would do it for not considering enough quantitative easing (QE). Indeed, QE as a tool of monetary policy would be a much more effective weapon than a cut in the benchmark interest rates to solution the real rates' issue, which the US economy so badly needs. Short term rate cuts would probably have little or no impact on real rates and long-term nominal rates. The Fed's balance sheet has fallen back to \$6,666 billion. The Fed therefore has plenty of room to expand it again. This means that real rates have greater potential to fall than nominal rates.

In terms of investment strategy, this means that while we do not find nominal rates particularly attractive, investing in 10-year TIPS at 2% with a tiny dose of 30-year TIPS at 2.6% could prove an interesting alternative. At present, we still believe that any aggressive long duration strategy remains inappropriate as it is too risky. However, the medium-term trend for real rates remains downwards oriented as there is not much other alternatives. The FOMC meeting on 30 July and the traditional Jackson Hole symposium from 21 to 23 August should provide us with clues as to the relevance of a TIPS duration strategy. In the meantime, caution is warranted!

3. EQUITIES

A PLEA FOR LITTLE SUMMER CAUTION

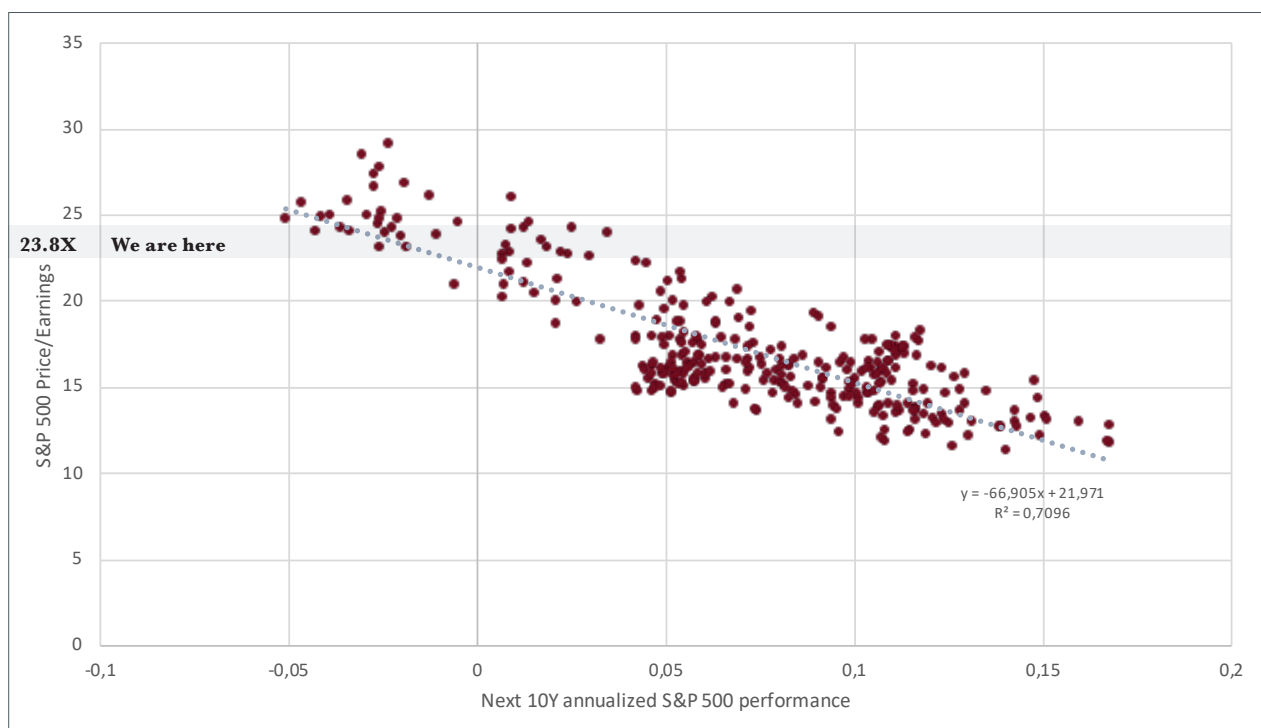
In July, global equity markets continued to trend higher, with global indices up by more than 1.0% thanks to the continued rebound in US large cap stocks.

While much has been written about the end of US exceptionalism, the rebound in the S&P 500 and large US technology stocks since mid-April is telling us something different. On closer look, the situation appears more nuanced: Yes, the US market has rebounded, but clearly not the US Dollar, leaving a bitter taste in the mouths of EUR and CHF-based investors. Yes, this rebound has been impressive, but once again it owes much to the “Magnificent 7” (Amazon, Alphabet, Apple, Meta, Microsoft, Nvidia and Tesla) that account for more than half of the index’s rise since April. It also comes at a time when

earnings growth expectations for 2025 have been severely revised downwards – from nearly 13% EPS growth expected at the beginning of the year to less than 7%. Finally, the rebound in US stocks and the deteriorating earnings’ prospects occurred as valuations were already stretched.

At nearly 24x current earnings, the S&P 500 is well above its long-term average and at the high end of its historical range. While valuations are rarely a good indicator of timing in absolute terms – as J.M. Keynes said, markets can remain irrational longer than investors can remain solvent – they are nevertheless a good indication of the future returns investors should expect. From this perspective, the regression between the S&P500 P/E ratio and the next 10 years annualized returns of the US mar-

G2: S&P 500 – P/E VS. ANNUALIZED PERFORMANCE OVER THE NEXT 10 YEARS



Source: Bloomberg, Banque Eric Sturdza

ket shows a very linear relationship and confirms the idea that the more investors pay, the more likely their future returns will be lower.

The message of caution seems all the more relevant in the short term as sentiment and positioning indicators have turned and now point to a certain degree of complacency on the part of investors, as we enter the summer period when liquidity is lower and seasonality traditionally less favorable (on average, global equity indices registered a performance of -0.3% and -1.5% in August and September over the past 25 years).

The earnings season continues, with half of the S&P 500 companies and almost all of the Magnificent Seven companies having reported at the time of writing. The results remain solid, with nearly 83% of companies reporting earnings above expectations and companies beating on average by close to 7%. The picture is fairly reassuring, but participation remains limited and a good chunk of these good results owes much to the impressive results posted by companies such as Alphabet, Meta and Microsoft, that continue to enjoy sound growth in their core businesses (cloud, search, etc.) while continuing to spend tens of USD billions to support their foray in Artificial Intelligence application fields. This situation contrasts with the one of Tesla, which reported a historic drop in number of units sold and warned that the 2nd half of the year would be difficult due to expiring EV tax credits in the United States and potential disruption caused by tariffs. This type of dichotomy is not only seen amongst the Magnificent 7 but also across the whole US market, with happy few identified as the winners of the AI revolution thriving, and entire sectors of the economy facing a more reluctant consumer and uncertainties over tariffs.

In Europe, a general sense of unease is also palpable in earnings calls of some European champions that are facing slowing US demand, the potential ripple effects of US tariffs and are feeling the burden of the EUR appreciation at the same time. In addition to sectoral disparities and the very low representation of European companies among technology leaders, these uncertainties are probably not unrelated to the European market's difficulty in surpassing its March highs. One could hope that the European market – notably exporters - may get a short term relief with the conclusion of a trade deal between the EUR and the US and even if this trade agreement is certainly not the best one but more likely the least bad the Europeans could have reached..

In this unusual environment, we have decided to remain relatively consistent and selective in our equity allocations. Nevertheless, with market participants becoming more complacent, seasonality turning less favorable and uninspiring growth prospects, partial and tactical hedging strategies are making more sense and we acted accordingly.

5. PERFORMANCE

EQUITIES	30.07.25	CURRENT	1 M	3M	6M	YTD	2024	2023	2022	2021	2020
US	DOW JONES	44 461	0,8%	9,3%	-0,2%	4,5%	12,9%	16,2%	-6,9%	20,9%	9,7%
	S&P 500	6 363	2,5%	14,3%	5,3%	8,2%	23,3%	26,3%	-18,1%	28,7%	18,4%
	S&P500 EW	7 509	1,8%	9,5%	2,3%	5,7%	10,9%	13,8%	-11,5%	29,6%	12,8%
	NASDAQ 100	23 345	2,9%	19,3%	8,7%	11,1%	24,9%	55,1%	-32,4%	27,5%	48,9%
	RUSSELL 2000	2 232	2,6%	13,7%	-2,4%	0,1%	10,0%	16,9%	-20,5%	14,8%	19,9%
EUROPE	STOXX 600	550	1,6%	4,3%	2,0%	8,4%	6,0%	16,6%	-9,9%	25,8%	-1,4%
	FTSE 100	9 137	4,3%	7,6%	5,3%	11,8%	5,7%	7,7%	4,6%	18,4%	-11,4%
	CAC 40	7 862	2,6%	3,5%	-1,1%	6,5%	-2,2%	20,1%	-6,7%	31,9%	-5,0%
	DAX	24 262	1,5%	7,8%	11,6%	21,9%	18,8%	20,3%	-12,3%	15,8%	3,5%
	IBEX 35	16 657	0,7%	1,1%	-0,5%	7,7%	6,2%	6,1%	-16,5%	23,4%	3,8%
ASIA	SPI SWISS	2 920	2,4%	9,5%	4,7%	4,9%	17,7%	28,3%	-2,5%	12,8%	7,4%
	MSCI EM	25 177	4,6%	13,8%	24,5%	25,5%	17,7%	-10,5%	-12,6%	-11,8%	-0,2%
	TOPIX	4 151	5,5%	10,1%	8,8%	5,5%	14,7%	-9,1%	-19,8%	-3,5%	29,9%
	HANG SENG	22 119	-4,3%	16,0%	4,1%	10,3%	17,7%	-10,5%	-12,6%	-11,8%	-0,2%
FX & COMMODITIES	CSI 300	3 771	-3,0%	1,0%	-5,7%	-4,2%	14,7%	-9,1%	-19,8%	-3,5%	29,9%
CURRENCIES	EUR-USD	1,141	-3,2%	0,7%	10,1%	10,2%	-6,2%	3,1%	-5,9%	-6,9%	8,9%
	EUR-CHF	0,930	-0,6%	-0,7%	-1,5%	-1,1%	1,2%	-6,1%	-4,6%	-4,0%	-0,4%
	USD-CHF	0,815	2,7%	-1,3%	-10,6%	-10,2%	7,8%	-9,0%	1,3%	3,1%	-8,4%
	USD-JPY	149,5	3,8%	4,5%	-3,7%	-4,9%	11,5%	10,5%	13,9%	11,5%	-4,9%
	USD INDEX	99,82	3,0%	0,3%	-7,9%	-8,0%	7,1%	-2,1%	8,2%	7,0%	-7,3%
COMMODITIES	Gold	3275,18	-0,8%	-0,4%	17,0%	24,8%	27,2%	13,1%	-0,3%	-4,2%	25,0%
	Silver	37,13	2,8%	13,8%	18,6%	28,5%	21,5%	-0,7%	2,8%	-13,6%	48,7%
	WTI Crude Oil	70,00	7,5%	20,3%	-3,5%	-2,4%	0,1%	-10,7%	6,7%	59,1%	-21,5%
	Natural Gas	3,05	-11,9%	-8,4%	0,0%	-16,2%	44,5%	-43,8%	20,0%	46,9%	16,0%
	Copper	9651,70	-4,0%	5,9%	8,1%	11,5%	2,2%	0,9%	-14,1%	25,7%	26,0%
FIXED INCOME	30.07.25	CURRENT	1 M	3M	6M	YTD	2024	2023	2022	2021	2020
RATES	US 10 year gvt	4,37	0,14	0,21	(0,17)	(0,20)	69 bps	0 bps	237 bps	60 bps	-100 bps
	German 10 year gvt	2,71	0,10	0,26	0,25	0,34	34 bps	-54bps	275 bps	39 bps	-38 bps
BONDS	Global Aggregate USD hdg.	595,6	-0,1%	0,5%	2,3%	2,7%	3,4%	7,1%	-11,2%	-1,4%	5,6%
	US Treasuries	2366,7	-0,4%	-0,2%	2,8%	3,3%	0,6%	4,1%	-12,5%	-2,3%	8,0%
	US TIPS	365,4	0,3%	0,6%	3,6%	4,9%	1,8%	3,9%	-11,9%	6,0%	11,0%
	US IG Corporates	3426,9	0,0%	1,9%	3,6%	4,2%	2,1%	8,5%	-15,8%	-1,0%	9,9%
	US High Yield	2817,4	0,4%	4,0%	3,6%	5,0%	8,2%	13,4%	-11,2%	5,3%	7,1%
	Euro Government	243,8	-0,3%	-0,4%	0,4%	0,3%	2,0%	7,1%	-18,2%	-3,4%	4,7%
	Euro IG Corporates	263,9	0,5%	1,3%	1,8%	2,3%	4,7%	8,2%	-13,6%	-1,0%	2,8%
	Euro High Yield	495,3	1,1%	2,8%	2,9%	3,4%	9,1%	12,8%	-11,1%	4,2%	1,8%
	EM USD Aggregate	1320,7	0,8%	3,4%	4,7%	5,8%	6,6%	9,1%	-15,3%	-1,7%	6,5%

Source: Bloomberg, 30/07/25



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