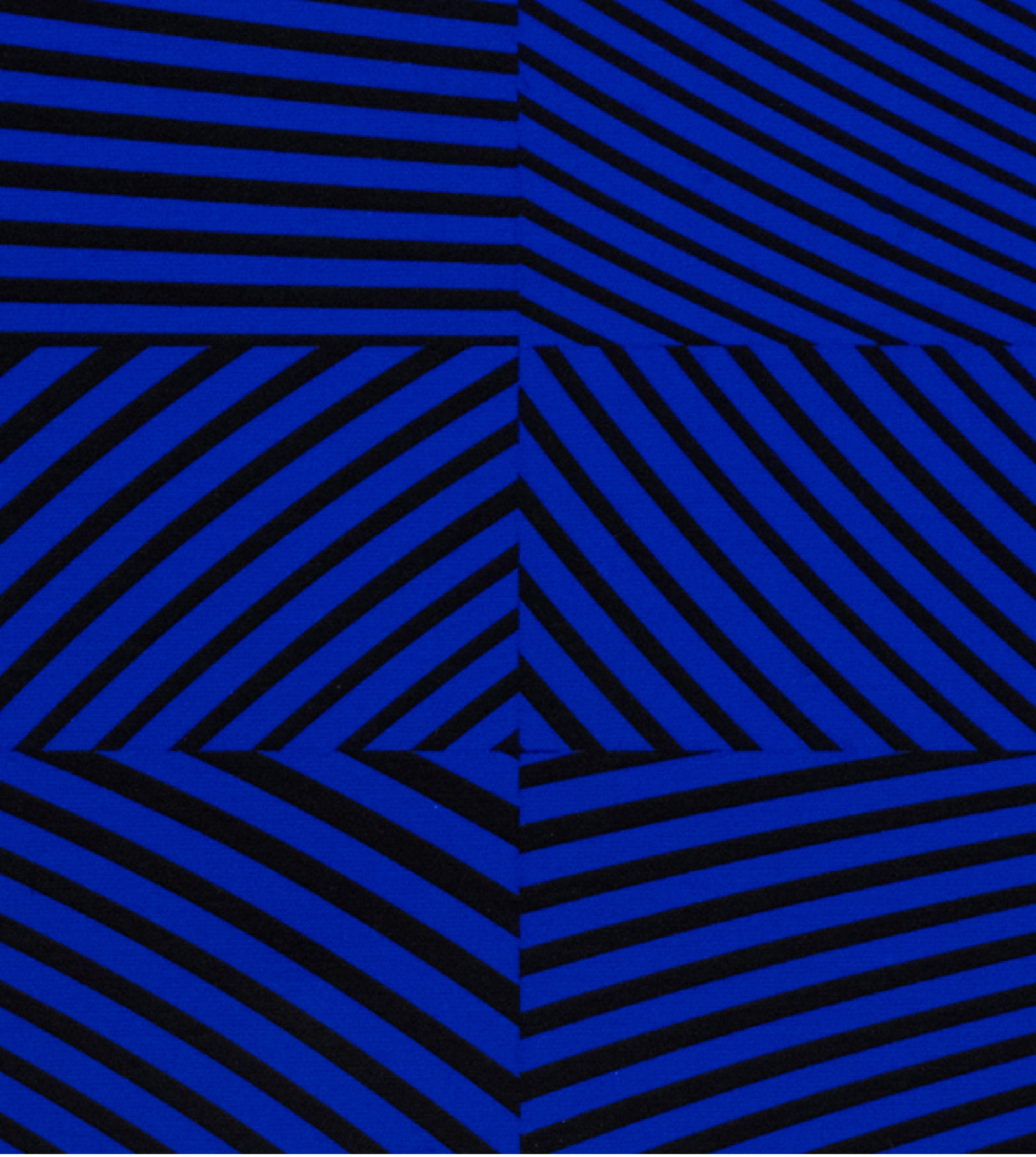
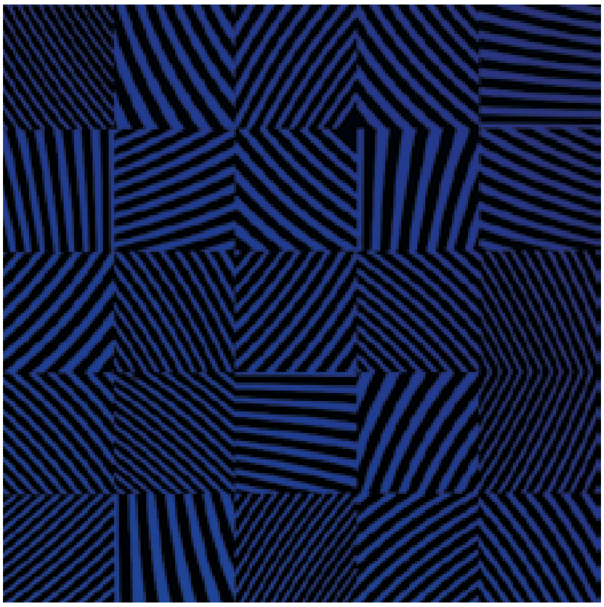


Quarterly Insight 3Q25

Creativity within Excellence

CBH | Investment Management



Vera Molnar
Coupé collé 57-12-A1
Diptyque
Peinture sur toile

Contents

Published: June 2025

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“Je plie, mais ne romps pas” – Lessons from the Reed

In a Nutshell

- Markets rebounded sharply after a chaotic start to the quarter.
- Early protective positioning followed by a timely pivot allowed us to benefit from the rebound.
- We are slightly underweight on equities and cautious on long duration amid rising yields and political uncertainty.
- Gold and short-duration carry strategies remain core allocations.
- Policy uncertainty is undermining U.S. exceptionalism and putting pressure on the US dollar.
- Flexibility, diversification, and patience are essential in today’s unpredictable. environment.

In the second quarter of 2025, investors were reminded—rather abruptly—of the power of resilience in the face of adversity. Markets, much like Jean de La Fontaine’s reed, bent sharply in the face of unexpected gusts but did not break. What began as a brutal correction in early May evolved, quite spectacularly, into a vigorous rebound by quarter-end. The narrative arc of the past three months would have impressed even La Fontaine: strength challenged, flexibility rewarded.

For those less familiar with French literature, **Jean de La Fontaine** (1621–1695) was one of France’s most celebrated poets and fabulists. Writing during the reign of Louis XIV, he is best known for his Fables, timeless allegorical tales inspired by Aesop and classical traditions. These stories feature animals and elements of nature as characters to convey moral lessons. The Oak and the Reed, from which the expression “Je plie, mais ne romps pas” (“I bend, but do not break”) originates, illustrates the enduring power of adaptability in the face of adversity.

We started the quarter fully aware that risks lay ahead and that the initial honeymoon between the markets and Donald Trump might not last. As anticipated, volatility spiked with his return to the political stage. But it was the theatrically timed “Liberation Day” tariff announcement that delivered the sharpest jolt. Investors witnessed a return to traditional risk-averse behaviour, including deleveraging, widening spreads and equity outflows. US equity markets, which were already trading precariously, experienced a sharp correction. However, by mid-June, they had recovered much of their losses.

The parallel with the fable is more than poetic. The oak, in its pride and inflexibility, ultimately falls. The reed, by contrast, survives through adaptation. Our own strategy followed the reed’s path. We entered the quarter having already added protection in Q1, in anticipation of turbulence. During the volatility shock, we reversed course: increasing our exposure to High Yield and Hybrid Credit and implementing short-volatility strategies. This pivot, made possible by disciplined portfolio construction and asymmetrical tools, allowed us to harness the rebound rather than be swept away by it.

This rebound, however, should not be mistaken for a return to calm. It illustrates how market sentiment can shift abruptly—and how quickly volatility can reverse course. In such an environment, humility and adaptability are not just virtues, but necessities.

We are slightly **underweight on equities**. The recovery in US markets has pushed valuations back to stretched levels, leaving little room for further upside unless fundamentals improve significantly. The long-term implications of Trump’s renewed protectionist agenda are still unfolding. In the short term, tariffs may fuel inflation and suppress corporate investment. In the longer term, they erode institutional credibility—particularly with attacks on the Fed and potential taxation of foreign capital flows.

Our **positioning remains cautious on duration**, given persistent upward pressure on yields. With deficits unaddressed and a term premium still adjusting, the long end of the curve offers limited protection. We continue to favor carry strategies at the short end, where real yields remain attractive and less exposed to policy shifts.

Gold remains a favored allocation. As China reduces its dollar exposure and US institutional credibility weakens, gold serves not just as an inflation hedge, but also as a geopolitical risk barometer. The rare-earths episode reminded global investors of strategic vulnerabilities. China's economic statecraft—its willingness to use supply chains as leverage—reinforces the case for uncorrelated hard assets.

More broadly, the quarter has validated the **importance of flexibility, humility, and diversification.** We are reminded that no scenario is static, no regime is permanent. In a world where policy decisions are made theatrically, and economic consequences unfold asymmetrically, rigid convictions are a liability. Diversification across strategies, time horizons, and risk factors remains the most reliable insurance.

In line with one of La Fontaine's principles, we believe that investors must avoid confronting forces beyond their control and instead rely on flexibility, diversification, and patience to navigate uncertain times.

Macro Outlook – United States

Key Takeaways

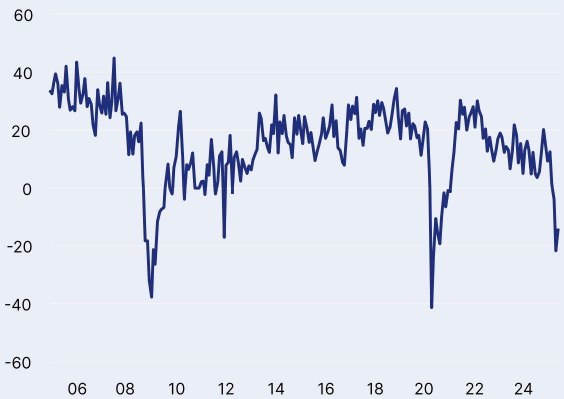
- Increased uncertainties related to Trump policies are affecting consumer and business sentiment.
- "Wait-and-see" approaches, would slow economic activity—though not cause a collapse.
- Investors are increasingly questioning the safe-haven status of the U.S. dollar and Treasuries.
- The Fed should remain cautious.

Considerable policy uncertainty presents a significant risk to U.S. economic growth. Donald Trump's return to the White House has revived concerns about the trajectory of U.S. exceptionalism. Since taking office, his erratic policy decisions and rhetoric have contributed to heightened uncertainty. As a result, analysts and financial markets have begun to question the underlying strength of the U.S. economy. Nonetheless, while sustained uncertainty could eventually weigh on growth, current economic indicators do not point to an imminent recession.

After experiencing strong economic growth at a pace exceeding its potential in 2023 and 2024, the U.S. economy now faces growing uncertainty. The Trump administration's trade policy, characterized by inflationary pressures and unpredictability, could hinder economic activity.

Consumer sentiment has deteriorated as households fear a renewed wave of inflation, which could be more intense than that of 2022. Nevertheless, household demand may prove resilient once again. Although

Survey on Expected Capital Spending
United States, Federal Reserve Bank of New York



Source: LSEG Datastream/ CBH Investment Management

some signs of labor market softening have emerged, employment conditions remain solid. This resilience is due to several structural factors, including population aging, persistent labor shortages, waning interest in traditional forms of employment, and firms' reluctance to lay off workers after facing challenges with hiring post-Covid.

> **Many companies hesitate to make long-term investments because they fear sudden policy changes will disrupt their supply chains and erode profits.**

On the corporate side, persistent uncertainty complicates decision-making. A surge in imports ahead of the implementation of new tariffs distorted U.S. growth figures in the first quarter. However, investment appears to be the most affected. Uncertainty, erratic policy communication, frequent policy reversals, and weakening global trade all contribute to a climate in which both domestic and foreign firms are likely to postpone major investment decisions until a clearer and more stable policy framework emerges. In this context, businesses may adopt a "wait-and-see" approach, which would slow economic activity—though not cause a collapse.

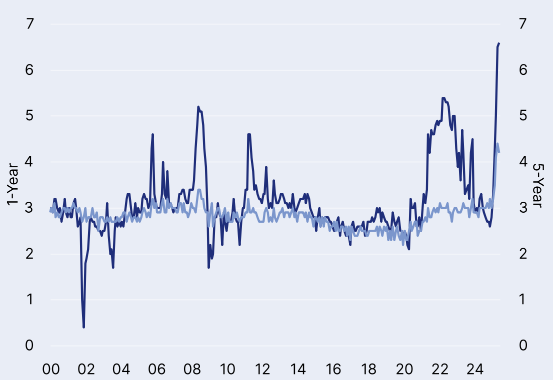
While fiscal policy is expected to remain accommodative, the "One Big Beautiful Bill" is not expected to significantly boost growth. While tax cuts may support consumption among lower-income households, this effect will likely be offset by the elimination of IRA energy tax credits and reductions in healthcare spending.

Although inflation has stabilized in recent months, import tariffs and tightened immigration policies leading to labor shortages are likely to reignite inflationary pressures. Although inventory build-up in the first quarter has helped delay price increases thus far, the U.S. economy remains vulnerable to renewed upward price dynamics. This is particularly true given the weakening of the dollar, notably against the euro, which is also contributing to higher import prices.

Investors are increasingly questioning the safe-haven status of the U.S. dollar and Treasuries amid mounting concerns over governance, policy unpredictability, deteriorating fiscal picture, and the potential return of inflationary pressures. Against this backdrop, yields have become more volatile, with the long end of the curve facing renewed upward pressure. At the same time, the Federal Reserve finds itself caught between competing objectives—maintaining price stability while supporting full employment. In our view, the Fed is likely to proceed cautiously in order to keep inflation expectations firmly anchored.

Consumer Inflation Expectations

%



Macro Outlook – Euro area

Key Takeaways

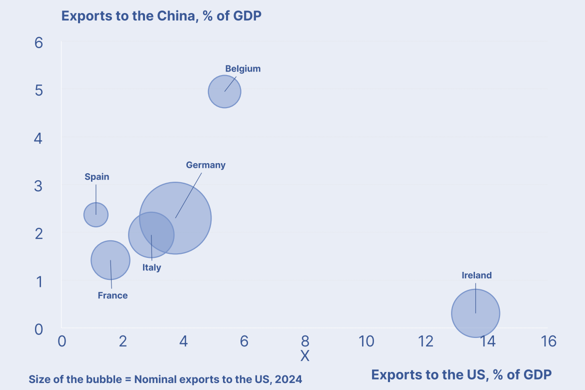
- Trade tensions and uncertainty are weighing on European growth prospects. Exports and investments will slow down.
- The European consumer is in good shape and may support economic activity.
- Thanks to strong disinflationary forces, inflation is now close to the target rate.
- Long-term growth will be boosted by Germany's major fiscal stimulus plan and European programs to increase defense spending.
- The ECB's cutting cycle is nearing its end. Looking ahead, the uncertain environment calls for caution.

The outlook for economic growth in the euro area is clouded by escalating trade tensions and heightened uncertainty. In the first quarter, GDP growth was temporarily boosted by the frontloading of exports before anticipated tariff increases. However, this effect is expected to be short-lived. The implementation of a 10% U.S. tariff on goods imported from the EU—which could be followed by additional protectionist measures once the current truce expires—along with weaker global demand and the appreciation of the euro, will likely dampen the euro area's export performance.

> **The euro area is facing a shock of uncertainty.**

Moreover, persistently high uncertainty is expected to weigh on business sentiment, thereby curbing investment and constraining economic activity for the rest of the year, despite rate cuts and lower energy prices. The United States surpassed the United Kingdom in 2023 to become the EU's largest trading partner and plays a critical role in the EU's external trade dynamics. Export-oriented countries, such as Germany, are the most at risk from tariffs and the economic slowdown in the United States. The economic impact of U.S. protectionist trade policies depends on the magnitude of the tariffs and the broader uncertainty these measures generate. The resulting confidence shock could be more detrimental to growth than the tariffs themselves.

Exports to the US and China
% GDP

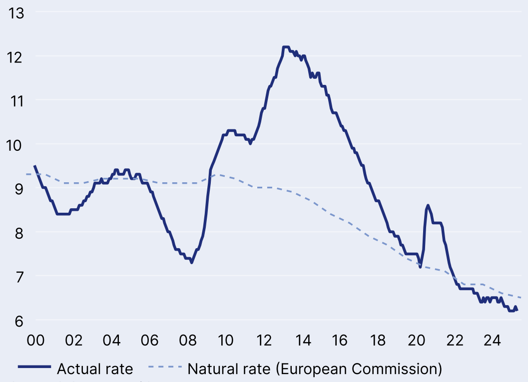


Source: LSEG Datastream / Fathom Consulting

On a more positive note, solid employment (the unemployment rate is at an all-time low) and abundant savings will support household demand. Additionally, easing inflationary pressures are likely to boost consumption. Lower inflation within the monetary union is expected, due to declining commodity prices, a stronger euro, and softening global demand.

Thanks to Chancellor Friedrich Merz's major stimulus plan, the effects of government policies will be seen starting in 2026. The plan allocates €500 billion for infrastructure spending over the next ten years, and defense spending is now uncapped. At the EU level, the ReArm Europe program is expected to stimulate long-term GDP growth. France is poised to benefit from its leadership role. To fully benefit from the increase in defense spending, however, Europe must develop an industrial base in this sector. In a context of easing financing conditions, these public programs could stimulate private investment once the initial uncertainty has passed.

Euro area: Unemployment rate
% of labor force



Source: LSEG Datastream/ CBH Investment Management

Meanwhile, European disinflation has allowed the ECB to continue easing. In May, consumer price inflation fell below 2% year over year due to lower energy prices and a stronger euro exchange rate. Wage growth is expected to continue declining as pressure for inflation compensation fades. With inflation now settling around the 2% target, the ECB lowered its policy rates by 50 basis points during the second quarter and is approaching the terminal rate. At the June 5 press conference, Christine Lagarde signaled that the rate-cutting cycle was "nearly concluded." Markets are now pricing in a 25-basis-point cut during the second half of 2025, and inflation expectations remain well anchored at 2%. However, due to the high level of uncertainty, the guardian of European price stability did not provide forward guidance. They emphasized once again that they will take a data-dependent, meeting-by-meeting approach to determining the appropriate monetary policy stance.

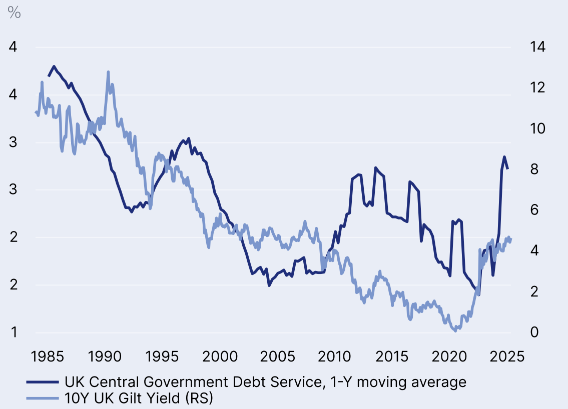
Macro Outlook – Other advanced economies

Key Takeaways

- Trade tensions, tighter financial conditions, and heightened uncertainty are expected to exert downward pressure on UK economic activity.
- Domestic demand will drive Japanese growth, but the risks are tilted downward.
- As a highly open economy, Switzerland remains vulnerable to the trade war, although domestic activity has demonstrated resilience.

The UK economy is expected to suffer from trade tensions, tighter financial conditions, and elevated uncertainty. Increased defence spending in the UK is expected to support GDP growth, though this positive impact will likely be offset in the short term by the adverse effects of ongoing trade tensions. Inflation will remain elevated in the near term, driven by higher import prices and strong wage growth. The overall policy mix is set to become more accommodative, although its effectiveness may be constrained by the gradual pace of interest rate cuts and the introduction of stricter fiscal rules. High interest payments will continue to strain public finances, adding to the debt burden.

UK Central Government Debt Service



Source: LSEG Datastream/ CBH Investment Management

The Swiss economy continues to demonstrate resilience. Economic activity expanded in the first quarter, driven by robust growth in the services sector and sustained strength in manufacturing, especially in the pharmaceutical and chemical industries.

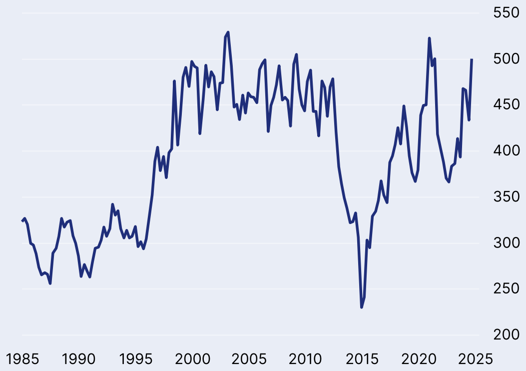
However, Switzerland remains highly dependent on external demand, particularly from the United States. In this context, uncertainties surrounding Donald Trump's unpredictable trade policies and tariffs, softening U.S. demand, and an increased corporate "wait-and-see" approach are expected to negatively impact Swiss economic performance in 2025 and 2026. Demand from Switzerland's other key trading partner, the European Union, could gain traction in 2026 as the stimulus measures introduced by Chancellor Merz's government begin to take effect, particularly infrastructure investments.

In an environment marked by elevated global uncertainty, domestic household demand is expected to provide stability for the Swiss economy, despite subdued consumer sentiment. The labor market, widely regarded as a key driver and indicator of the business cycle, remains robust, and real wages continue to rise.

On the inflation front, downward pressures persist. The strength of the Swiss franc, particularly against the U.S. dollar, alongside falling commodity prices, especially in the energy sector, has contributed to a significant decrease in imported inflation. In contrast, domestic prices, particularly in the services sector, are rising at a moderate pace, signalling resilient underlying demand. Against this backdrop, the Swiss National Bank has reduced its policy rate by 50 basis points since the beginning of the year. Backed by solid structural fundamentals, most notably Switzerland's robust external position, the franc continues to enjoy its safe-haven status, particularly amid questions about the U.S. dollar's status and ongoing geopolitical uncertainty. Although the SNB has the ability to intervene in foreign exchange markets to manage excessive currency volatility, it may be limited by the U.S. Treasury's ongoing investigation into alleged franc manipulation. Consequently, the central bank will likely continue to rely on conventional monetary policy tools, such as interest rate adjustments, to guide inflation expectations and ward off excessive deflationary pressures.

Swiss Net International Investment Position

% GDP



Source: LSEG Datastream/ CBH Investment Management

Japan remains vulnerable to the effects of the global trade war and heightened geopolitical uncertainty, especially since the United States—its largest trading partner—accounted for 20% of its total goods exports in 2024. Rising trade barriers, weaker global demand, and ongoing uncertainty regarding trade policies in key partner countries are expected to negatively impact exports and moderate overall growth. The automotive sector, a cornerstone of Japan's industrial base, is particularly vulnerable due to existing 25% tariffs and the potential for additional levies. Additionally, subdued demand from China, Japan's second-largest export destination, is expected to persist despite ongoing stimulus efforts by Chinese authorities. Against this backdrop of heightened uncertainty, corporate investment decisions are expected to be delayed, further dampening the growth outlook.

Meanwhile, domestic demand will drive growth but faces significant risks. Strong wage growth will support private consumption and high corporate profits should support business investment despite elevated uncertainty.

However, a sharp yen appreciation could compress corporate profits and wages, dampening private consumption and investment. Sudden asset price corrections pose risks to financial stability, with potential spillovers to banks and government finances. Yields on long-term JGBs reached record highs in May, and any loss of confidence in fiscal sustainability could raise sovereign risk premiums, further weighing on the financial sector and the real economy.

Macro Outlook – Asia

Key Takeaways

- Trade uncertainty dimmed from ongoing US China tariffs will continue affect market sentiment, but impacts are diminishing.
- Temporary tariff relief sparks cautious optimism.

The Asia-Pacific region faces a complex interplay of trade détente and currency fluctuations as it enters Q3 2025. While the U.S.-China tariff reprieve has provided near-term relief to equity markets, structural risks from diverging monetary policies and export dependencies persist. The currency volatility saw in like Taiwan, China's delicate stabilization efforts, and uneven tariff impacts across Southeast Asia underscore the region's bifurcated trajectory.

The U.S. and China's latest agreement to slash reciprocal tariffs from 125% to 10% for 90 days triggered immediate market rallies. Tech and export-oriented stocks led gains including the China based EV giant, BYD and the tech behemoths Alibaba and Tencent. However, the deal's fragility is apparent with potential U.S. tariff hikes under President Trump posing a tail risk.

China expanded the fiscal package and marked a decisive shift toward countercyclical stimulus while testing traditional deficit boundaries. The government plans a 4% fiscal deficit (vs. 3% in 2024), supported by CNY1.8 trillion in special central government bonds and CNY4.4 trillion in local government (LG) special bonds. The fiscal stimulus aimed to counter balance the negative impacts on exports by 1) catalysing fixed asset investment (FAI) through infrastructure upgrades and strategic industry subsidies, and 2) reviving domestic consumption (e.g. consumption voucher program on electronic and white appliances).

However, local government financing vehicle (LGFV) debts—estimated at CNY66 trillion (90% of 2024 GDP)—constrain implementation capacity. The People Bank of China (PBOC)'s debt swap program (CNY10 trillion) and loan tenor extensions provide temporary relief but absence of any structural reforms could impair provincial credit access.

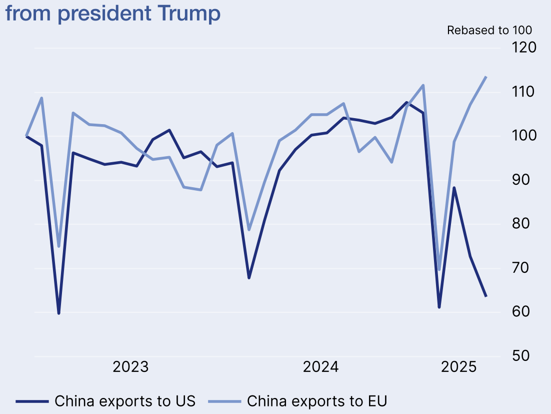
On the Monetary Policy front, PBOC lowered the seven-day reverse repo rate 10bps further to 1.4% and released estimate CNY1 trillion liquidities by further 50bps cut on Reserve Requirement Ratio (RRR). These measures complement fiscal efforts but may face diminishing returns as highlighted by recent economic data release.

China's economic outlook for 2H2025 hinges on navigating US trade tensions, where failure to reach any agreement pose significant downside risks to exports and manufacturing, as well as meeting the growth target. Domestic consumption remains crucial, supported by expanded trade-in subsidies targeting appliances and electronics to boost retail sales. The property sector shows partial stabilization but continues to drag on household confidence, with high inventory and debt burdens persisting. Policymakers are expected to maintain proactive fiscal and monetary support, including rate cuts and infrastructure spending, to sustain growth and to defuse deflationary pressures.

India is implementing similar tactics through government spending with priority on digital infrastructure and logistics corridors. India's effort in fiscal balancing bear fruits with revenues surged, driven by GST reforms and formalization gains such as simplified tax structure, broader tax base and enhancement on tax compliance. The fiscal enhancement allows India on track to meet its GDP deficit target for FY2025-26 (previous 4.8%). The Reserve Bank of India (RBI) is poised to cut interest rate further in 2H25. The dovish tilt reflecting the Bank's intention in mitigating the trade shock with inflation continued to be tamed. The interest rate cut could also relieve borrowers, especially in the home loan sector, which is the key factor that driving banks' non-performing loans.

On the Japanese markets, further inflows especially from domestic households expect to support the equity market in 2H as investors are looking for alternatives to protect against inflation. Recent data on fund flows showed inflows to cash and transferable deposits have declined, while outflows from saving deposits have grown. Meanwhile, there has been an increase of inflows to equities and bonds. The ongoing structural improvement in corporate governance also play another key role in supporting the equity valuations. That said, the tariff impacts will remain the major overhangs, leaving some uncertainty on the corporate earnings outlooks.

China export pivot after tariff threat from president Trump



Source: LSEG Datastream/ CBH Investment Management

Macro Outlook – Latin America

In Brazil, economic activity data continues to indicate that the economy is running above its potential. Industrial capacity utilization remains above 80%, and the most recent employment report showed stronger-than-expected formal job creation and a further decline in the seasonally adjusted unemployment rate, which now stands at 6.3%. In addition, domestic demand remains robust — fueled by a tight labor market — which continues to support household consumption, a key driver of GDP alongside the agribusiness sector, which is currently benefiting from a record harvest. Inflation in May surprised to the downside relative to market expectations, driven primarily by falling prices in industrial goods and food, and continues on a more benign trajectory.

On the monetary policy front, the Central Bank raised the benchmark interest rate by 50 basis points in May and refrained from signaling a clear forward guidance. However, it did suggest that rates are likely to remain elevated for longer in order to cool down economic activity and ensure inflation convergence. As long as fiscal policy remains expansionary, a consistent deceleration in activity is unlikely, limiting the Central Bank's ability to ease rates without risking a resurgence in inflation. Market economists project that, although inflation appears contained for now, the positive impact of the harvest on food prices is expected to fade by August, potentially leading to renewed inflationary pressures.

On the fiscal side, government revenues have been in line with market expectations. However, expenditures have come in below budget in early 2025, due to delays in payments of court-ordered debts and congressional amendments. In an effort to deliver primary results consistent with the new fiscal framework, the government announced an increase in the IOF (tax on financial transactions). This was poorly received by both the private sector and Congress, sparking political backlash and pressure to revise or revoke the proposal. In response, the government is now exploring alternative tax increases and the elimination of certain tax exemptions.

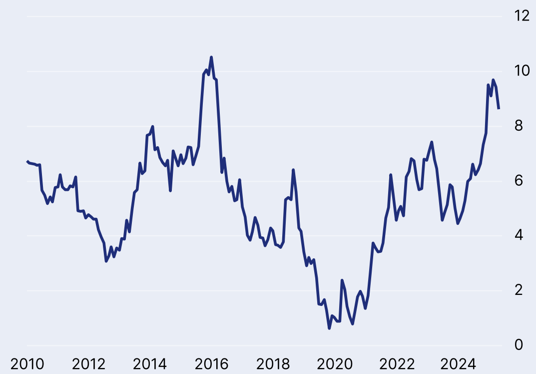
Regarding investment opportunities in Brazil, we conducted an ERP (Equity Risk Premium) analysis excluding sectors heavily exposed to exogenous factors, such as banks and commodities. Based on 10-year real interest rates around 7.2%, our model yields an ERP of -0.7%, while the broader Ibovespa ERP stands at approximately 2.1%, roughly in line with its historical average. Many research pieces highlight the upside asymmetry in Brazilian equities, tied to easing inflation and interest rates, and the potential for a more constructive political scenario following the 2026 elections. That said, it is still too early to draw firm conclusions about 2026, especially given Brazil's inherent volatility, which warrants a cautious approach to risk asset allocation in the current environment. Another important factor is that labor productivity has shown no meaningful growth in recent years, even with increased exposure to AI. At current interest rate levels, and following the recent correction in equities, the Brazilian stock market does not appear to offer a sufficient risk premium to justify meaningful allocation. Nevertheless, we remain closely attuned to the evolution of Brazil's fiscal outlook and the potential for a country-level de-risking, which could unlock alpha as some of the current constraints are resolved.

In contrast, we see a highly attractive opportunity in Brazilian real interest rates, which are currently at historically elevated levels — rare even in times of heightened uncertainty. We are expressing this view through sovereign inflation-linked bonds (NTN-Bs, the Brazilian equivalent of U.S. TIPS), which offer a compelling risk-reward profile with daily liquidity. The fiscal context further supports the attractiveness of these instruments, with a deteriorating debt trajectory and mounting challenges in anchoring long-term fiscal expectations. If sustained, this dynamic is likely to increase medium-term inflation pressures, either through implicit monetary expansion or currency depreciation as a mechanism to dilute the government's real liabilities.

Brazil's real interest rates are among the highest in the world — a level that is unlikely to be sustainable over the long term. Should the country shift toward greater macroeconomic predictability — via structural reforms, fiscal discipline, or the restoration of institutional credibility, potentially following a change in government in 2026 — markets are likely to preemptively price in a decline in real rates and a flattening of the long end of the yield curve. This would drive substantial capital appreciation in NTN-Bs, particularly those with longer durations. As such, in addition to the attractive carry, investors would stand to benefit from meaningful capital gains in the event of a rate compression. Historically, this type of movement has coincided with broader rallies in Brazilian risk assets, declines in sovereign risk spreads, and improved global investor sentiment. Allocating to NTN-Bs is therefore not only a way to secure elevated real yields but also a lower-risk means of participating in a potential re-rating of Brazil's macroeconomic outlook.

Brazil: 10-year real interest rate

%, Deflated by long-term inflation



Source: LSEG Datastream/ CBH Investment Management

Macro Outlook – Commodities

In a quarter marked by heightened uncertainty, **gold once again saw strong investor demand**, reaching an all-time high of $3,500 per troy ounce on April 22. This reflects the high demand for a safe haven amid geopolitical and economic uncertainties. The surge was driven by record central bank purchases, a weak U.S. dollar, and mounting trade tensions. Concerns over a potential economic slowdown combined with elevated inflation in the United States—a characteristic of stagflation—have proven particularly supportive of gold. Under these conditions, fixed-income assets are penalized by rising inflation, cyclical commodities tend to underperform due to weaker growth, and equity markets come under pressure as corporate profits decelerate.

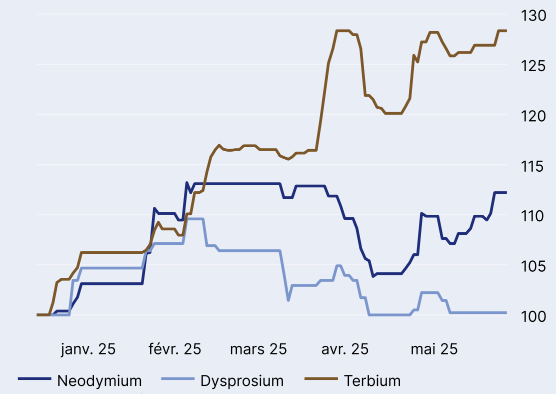
Price of gold

Source: LSEG Datastream/ CBH Investment Management

Since early 2025, prices of rare earth elements have shown moderate to strong gains, especially those used in magnets, such as neodymium, dysprosium, and terbium. This trend is driven by sustained demand from strategic sectors, including electric mobility, renewable energy, advanced electronics, and defense, combined with tighter Chinese export controls. Rare earth elements are essential for producing high-performance magnets, catalytic converters, and precision systems used in civilian and military applications. In this context, rare earths have become a central issue in U.S.–China trade negotiations. China's recent restrictions on the export of certain rare earths and magnets highlight its dominant position in global supply chains and its willingness to leverage this advantage for geopolitical gain. **This makes rare earths a critical factor in the broader dispute over trade and technology.**

Rare earth prices

Shanghai Metal Market, rebased to 100=31/12/2024



Source: LSEG Datastream/ CBH Investment Management

In mid-June, escalating geopolitical tensions in the Middle East renewed upward pressure on oil prices. However, the starting point was a weak oil market. Rising trade tensions had heightened concerns about global economic activity, exerting downward pressure on prices. The situation was further compounded by a larger-than-expected increase in OPEC+ production during the second quarter. As a result, crude prices have fallen below the estimated $65 breakeven level for U.S. shale producers, raising the risk of financial distress among higher-cost operators and potentially curbing future output. Reflecting these dynamics, the International Energy Agency (IEA) has once again revised its global oil demand forecast downward. With global supply growth expected to significantly outpace demand, oil inventories are projected to increase by an average of 720 kb/d in 2025 and 930 kb/d in 2026, compared

Crude Oil WTI

USD price per barrel

Source: LSEG Datastream/ CBH Investment Management

to a draw of 140 kb/d in 2024. **These developments point to a growing imbalance in oil market fundamentals and set the stage for a potential rebalancing phase ahead.**

In contrast, natural gas markets remained tight, with Henry Hub prices holding close to $4/MMBtu due to strong LNG export demand, particularly from Asia and Europe, coupled with below-average storage levels. Weather-driven consumption spikes and ongoing geopolitical uncertainties further supported gas prices.

Key Macro Data & Forecasts

	Annual				2024			
	2023	2024	2025e	2026e	Q1	Q2	Q3	Q4
United States								
Real GDP	**2,9**	**2,8**	**1,2**	**0,9**	**1,6**	**3,0**	**3,1**	**2,5**
Private consumption	2,5	2,8	2,0	1,0	1,9	2,8	3,7	4,0
Investment	2,4	3,7	1,7	0,2	6,5	2,8	2,1	-1,1
Domestic demand (contribution, %pt)	2,8	3,2	2,0	1,0	2,8	2,3	3,8	3,1
Inventories (contribution, %pt)	-0,4	0,1	0,7	0,0	-0,5	2,9	-0,1	-0,9
Net exports (contribution, %pt)	0,5	-0,4	-1,5	-0,0	-0,7	-1,0	-0,6	0,3
Inflation (CPI, %yoy)	4,1	3,0	3,2	2,8	3,2	3,2	2,7	2,7
Unemployment rate (%)	3,6	4,0	4,2	4,2	3,8	4,0	4,2	4,1
Euro area								
Real GDP	**0,6**	**0,8**	**0,7**	**1,1**	**0,5**	**0,6**	**0,9**	**1,2**
Private consumption	0,6	1,1	1,1	1,3	0,9	0,6	1,1	1,6
Investment	1,8	-1,8	2,8	1,9	-0,7	-3,0	-1,4	-1,8
Domestic demand (contribution, %pt)	1,0	0,7	1,4	1,3	0,7	0,3	0,9	1,0
Inventories (contribution, %pt)	-0,8	-0,4	0,0	-0,0	-0,8	-0,9	0,1	0,2
Net exports (contribution, %pt)	0,4	0,5	-0,7	-0,2	0,6	1,2	-0,0	0,0
Inflation (HICP, %yoy)	5,5	2,4	2,2	2,0	2,6	2,5	2,2	2,2
Unemployment rate (%)	6,6	6,4	6,4	6,5	6,5	6,4	6,3	6,2
China								
Real GDP	**5,4**	**5,0**	**4,7**	**4,3**	**1,3**	**1,0**	**1,4**	**1,6**
Unemployment rate (%)	5,1	5,1	5,1	5,1	5,2	5,0	5,1	5,1
Inflation (CPI, %yoy)	0,2	0,2	-0,1	0,8	0,0	0,3	0,5	0,2
Trade	1,0	3,8	1,7	2,5				

Forecasts – Rates

	Actual	Target		Last 5 years	
Policy rate	04/25	3M	12M	High	Low
Fed funds (upper)	4,50	4,50	4,00	5,50	0,25
ECB deposite rate	2,00	1,75	1,75	4,00	-0,50
10-year rate					
Us Treasury	4,35	4,50	4,50	4,77	0,63
German Bund	2,48	2,60	2,50	2,89	-0,64
FX					
EUR/USD	1.16	1,17	1,20	1,22	0,97
EUR/CHF	0,94	0,95	0,97	1,11	0,92
USD/JPY	143,50	140,00	135,00	157,90	103,76
GBP/USD	1,36	1,33	1,40	1,42	1,10

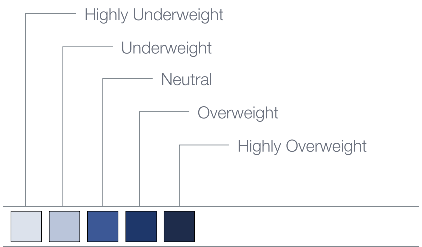
Asset Class Views

These asset class views have a 3 to 12 month horizon.

Where there has been a change since the last Quarterly Insight, the dot (•) indicates the previous view. These views should not be regarded as portfolio recommendations. This summary of our individual asset class views indicates the strength of conviction and relative preferences across a broad range of assets, but is independent of portfolio construction considerations.

	Highly Underweight	Underweight	Neutral	Overweight	Highly Overweight
Fixed Income			■		
Government Bonds			■		
Corporate Investment Grade			■		
Corporate High Yield			•		■
Emerging Market Debt Local Currency	■				
Emerging Market Debt Hard Currency			■		
Duration			■		
Equities		■			
United States of America		■			
Europe			■		
UK			■		
Switzerland			■		
Japan			■		
Emerging Markets ex-China			■		
China		■			
Alternatives				■	
Hedge Funds					■
Gold			■		
Commodities		■			
Currencies (against USD)					
EUR			•	■	
CHF			■		
GBP			■	•	
JPY				■	

How to read the table?



This content provides a snapshot of the current market environment and is not intended to predict or guarantee future results. It should not be regarded as investment research or advice on specific funds, strategies or securities. Past performance is not a guide to future results. Any forecasts, projections or targets mentioned are for illustrative purposes only and are not guaranteed to be accurate or achieved.

Asset Allocation

Seeking resilience in an era of global uncertainty

Key Takeaways

- Portfolio construction needs to reflect a multi-polar world, where geopolitical risk is a central component of overall risk management.
- The Trump administration's tariff policies have heightened uncertainty, clouding the investment outlook and necessitating a more nuanced and agile portfolio management approach.
- Policy unpredictability is feeding into monetary policy uncertainty, as central banks adopt a cautious, data-dependent stance.
- In this environment, we maintain a tactically defensive position while preserving a cautiously optimistic outlook moving forward.

As we enter mid-2025, the global investment landscape remains marked by heightened uncertainties. Geopolitical tensions, monetary policy divergence, trade wars, and evolving market dynamics continue to cloud the investment outlook. In this environment, we believe portfolios should be built for resilience, anchored in enhanced diversification, and positioned to seize selective opportunities.

Adjusting to an Uncertain and Multipolar World

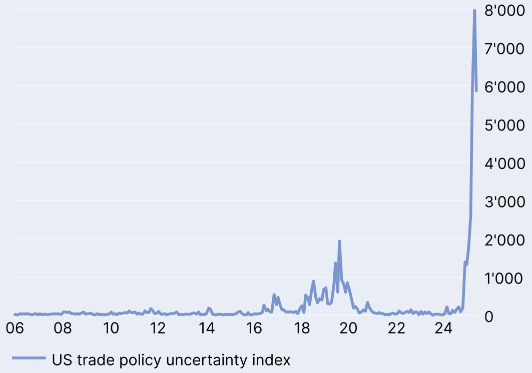
The global order is undergoing a profound transformation. Since the invasion of Ukraine in 2022, geopolitical fragmentation has accelerated, marking a definitive shift away from the post–Cold War unipolar, U.S.-led system toward a more complex, multipolar world. Strategic rivalries—particularly between the United States and China—are reshaping global trade, technology flows, and capital allocation. Simultaneously, middle powers such as India, Brazil, and members of the Global South are asserting greater geopolitical and economic independence, pursuing multi-aligned strategies that reject traditional alliances. 2025 has underscored that this is not a temporary phase, but a period of structural realignment. Regional conflicts—from the ongoing war in Eastern Europe to renewed instability in the Middle East and East Asia—highlight the fragility of the global security landscape. These dynamics are fundamentally altering capital flows, commodity markets, regulatory frameworks, and investor confidence.

Meanwhile, the Trump administration's policy sequence has defied expectations. Instead of pro-growth measures, rapid implementation of less market-friendly actions—such as higher tariffs, reduced immigration, and austerity via Department of Government Efficiency (DOGE)–led spending cuts—has complicated the policy outlook. Congress is also considering a tax bill that could add nearly $2.4 trillion to the deficit over the next decade. "Uncertainty" defines this landscape—for businesses deciding on capital investments, households considering major purchases, central banks setting interest rates, and investors allocating assets.

A major source is the unpredictable tariffs imposed by the U.S. and its trading partners—a sharp break from the post – World War II trend toward freer trade. Although this represents a significant shift toward protectionism, current tariffs are implemented through executive orders rather than formal trade agreements, increasing the risk of reversal depending on political changes. This unpredictability complicates corporate investment decisions, as firms face high opportunity costs amid rapidly changing trade policies. As a result, economic actors are often paralyzed, unsure when or how to proceed with hiring, capital investments, or supply chain adjustments. This volatility has undermined business and consumer confidence, while expected gains from M&A, tax cuts, deregulation, and capital markets have yet to appear.

Policy Risk is Now Front and Center

Highest level of trade uncertainty in decades



Source: LSEG Datastream/ CBH Investment Management

Monetary policy has added further complexity amid mixed signals globally. The European Central Bank has responded to stagnating growth and muted inflation with a series of aggressive rate cuts, while the Bank of Japan continues its cautious and delayed normalization. Meanwhile, the Federal Reserve faces a difficult balancing act. Although recent inflation readings have eased unexpectedly, rising inflation expectations amid tariff-related uncertainties and unsettled fiscal policies complicate the outlook. Given this high uncertainty, the Fed is likely to adopt a data-driven and cautious approach, delaying pre-emptive adjustments to avoid fueling inflation or unnecessarily suppressing demand. In the near term, its focus will remain on controlling inflation and managing financial stability risks, while weaker growth and labor market concerns take a backseat.

Adaptive Portfolio Construction

For much of the post–Global Financial Crisis (GFC) era, portfolios were concentrated in assets that thrived in a world of low interest rates, low inflation, and modest volatility. U.S. equities in particular benefited from this environment, allowing investors to rely on narrow sources of return with relatively low macro sensitivity. That era has likely ended. Today, investors face two-way risks to both growth and inflation, alongside what appears to be sustained policy and geopolitical uncertainty. It is a likely regime shift with significant implications for portfolio construction. In this environment, traditional diversification is no longer sufficient. Investors must adapt to a world of competing spheres of influence, policy divergence, and fragmented governance—where allocating capital requires a globally nuanced, politically aware, and dynamically managed approach.

In response to this fragile environment, our core philosophy remains grounded in active management and broad diversification. Now is the time to rely on dynamic asset allocation, relative value analysis, and macro risk assessment to guide portfolio decisions. Diversification is deployed not just across asset classes but also across regions, sectors, and sources of return. In addition, we aim to reduce dependence on any single market regime by building portfolios that are resilient under multiple scenarios—including those where volatility, illiquidity, or policy errors could impair returns.

Tactical Defense

Our current asset allocation reflects a cautious but not overly defensive stance. While we are underweight equities overall, this position is primarily driven by our underweight in U.S. stocks. Valuation concerns and sensitivity to geopolitical and trade disruptions make U.S. equities less attractive at this point in the cycle. However, we are not uniformly negative on risk assets. During Q2, we increased our credit exposure to overweight, as it offers more attractive risk-adjusted returns; all-in yields remain appealing for what we deem a controlled credit risk. We hold a neutral duration position, as we see little justification for taking aggressive bets on the rate curve at this stage. Inflation pressures have moderated, but central banks remain cautious, and growth data is still uneven. A neutral stance provides the flexibility to adapt as macro trends evolve. Our conviction in gold remains strong. We maintain a small overweight position as a strategic hedge against tail risks—both geopolitical and monetary. With demand supported by central bank purchases and investor hedging needs, gold plays a critical role in stabilizing overall portfolio risk. Its performance year-to-date has confirmed its value as a diversifier.

Equities

Unprecedented policy uncertainty calls for active management and high-conviction investing

Key Takeaways

- A constructive outlook for earnings growth across global markets underpins our medium-term positive stance.
- Emerging markets—particularly within ASEAN—offer relative attractiveness supported by favourable structural and macroeconomic trends.
- In periods of uncertainty and limited visibility, thematic investing helps maintain a medium-term focus; we continue to favour artificial intelligence and defence.
- Elevated valuations and concentration risk in the U.S. market make a strong case for enhanced geographic diversification.

As we enter the third quarter of 2025, the global equity landscape is marked by high complexity and elevated uncertainty. In the U.S., policy ambiguity surrounding trade negotiations and pending tax reforms continues to create volatility. Recent macro data remains difficult to interpret—distorted by tariff-related front-loading and a growing divergence between soft and hard indicators. Geopolitical tensions and regional conflicts further complicate the picture, reinforcing the need for tactical asset allocation. In this environment, our focus is on portfolio resilience: increasing geographic diversification, investing in conviction themes, and maintaining flexibility through active management. This approach allows us to stay exposed to long-term growth while managing near-term risks in an increasingly fragmented world.

Resilient Earnings Amid Trade Chaos

Corporate earnings continue to provide a solid foundation for global equity performance. In the U.S., first-quarter results have confirmed the strength of corporate profitability, with earnings surprises averaging around 7.6%, remaining at the high end of the post-pandemic earnings cycle. In addition, forecasts for the remainder of 2025 and into 2026 suggest a healthy pace of earnings growth. In 2025, earnings per share are expected to grow by 9.1% in the U.S. (S&P 500), 5.5% in Japan (TOPIX), 11.8% in Emerging Markets (MSCI EM), and 2.8% in Europe excluding the U.K. Looking ahead to 2026, growth is expected to accelerate, particularly in the U.S. and Emerging Markets, with projected EPS growth of 13.7% and 12.2%, respectively. Japan is also set to improve meaningfully, with an expected 10.4% increase, while Europe ex-U.K. is forecast to see a rebound to 11.4%. These figures reflect a broadly positive earnings trajectory.

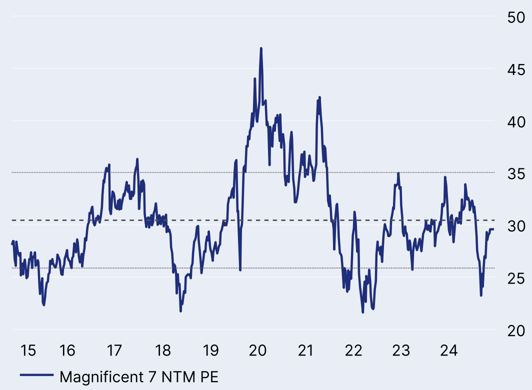
Earnings revisions have turned positive again in the U.S., as recession fears have receded. Revisions are also improving in other regions and are on the verge of turning positive in Europe ex-U.K. From a capital flows standpoint, despite the prevailing narrative of a rotation out of U.S. stocks, data show that over the last 12 months, the U.S. stock market led all other regions in capital flows, attracting more than 5% of assets under management (AUM).

Valuation Divergences Support Geographic Diversification

In the U.S., as the market swiftly recovered from the post-Liberation Day selloff, equity valuations have returned to elevated levels, with the S&P 500 trading at a next twelve months (NTM) P/E of 22x—close to two standard deviations above the 20-year average. Valuations are more moderate at 20x when excluding the Mag7. Following the recent correction, valuations within this concentrated group have largely normalized to a forward P/E of around 30x, just below the 10-year average. As such, we do not believe valuation levels have yet reached extremes that would justify a more cautious stance.

Magnificent 7 NTM PE with deviation bands

Mag7 valuations have normalized to their 10-year average



Source: LSEG Datastream/ CBH Investment Management

That said, outside the U.S., valuations generally appear more attractive, with Eurozone, Japanese, and Emerging Markets equities trading close to their long-term averages. From a relative perspective versus U.S. equities, the Eurozone and Emerging Markets offer the most value, both trading below one standard deviation of their 20-year average, despite a recent moderate rerating in both markets. This valuation landscape supports the case for regional diversification, particularly into markets that combine solid earnings prospects with more favourable entry points.

Staying Cautious While Leaning on Conviction Themes

Against this backdrop, our equity strategy for the third quarter adopts a defensive tilt, with a strong emphasis on diversification and resilience. Given the high level of uncertainty—particularly around U.S. trade policy and its potential implications for global growth and supply chains—we maintain an underweight stance on U.S. equities. This reflects both macroeconomic risks and the structural concentration of U.S. markets, which account for approximately 70% of the global equity market.

In terms of thematic exposure, we maintain a clear conviction in Artificial Intelligence as a long-term growth driver. While the debate around the monetisation of AI, the magnitude of hyperscaler capital expenditure, and the ultimate winners of the AI race remains ongoing, long-term growth signals continue to strengthen. Global AI-related capex by hyperscalers is expected to exceed $200 billion in 2025, up from approximately $140 billion in 2024, with over half directed toward expanding AI infrastructure—including custom chips, advanced networking, and data centre capacity. This surge in investment is fuelling demand across the semiconductor value chain, notably in high-bandwidth memory, AI accelerators, and optical components. While revenue models tied to AI applications are still maturing, early leaders in training and inference—both at the hardware and cloud platform level—are beginning to demonstrate scalable monetisation potential. This underlines the structural nature of the AI investment cycle, supporting a positive long-term outlook despite ongoing short-term debate around value capture.

Defence continues to be a prominent investment theme, driven by a confluence of geopolitical tensions, structural underinvestment, and a shift in policy priorities across major economies. In Europe in particular, Russia's continued military assertiveness and the recognition of decades of underinvestment in defence capabilities have prompted a historic pivot. Since 2023, European NATO members have significantly increased their defence budgets, with two-thirds now meeting or exceeding the 2% of GDP threshold. Ambitions are rising further, with new EU-led initiatives aiming to mobilise up to €150 billion for rearmament. Collectively, these measures suggest that Europe's defence budgets could rise to 3–3.5% of GDP over the next few years, with current plans targeting a near €500 billion spend over the next decade. In parallel, the United States continues to ramp up its defence spending, with the 2025 defence budget exceeding $900 billion, driven by elevated procurement of advanced systems, investment in cyber and space capabilities, and long-term commitments to modernise its nuclear arsenal and support allied forces. As a result, defence is supported by strong and visible budgetary commitments on both sides of the Atlantic, providing a solid and durable foundation for long-term investment in the sector.

Clouds Linger, but Visibility Should Improve

Overall, our outlook for equities remains constructive, provided global trade tensions do not escalate to the point of triggering recession fears. We expect equities to perform positively over the coming quarters, supported by resilient earnings growth and ongoing thematic tailwinds. However, the current degree of uncertainty justifies a tactical cautious stance. Our positioning—underweight U.S. equities, diversified across regions, and exposed to high-conviction themes—aims to balance downside protection with the flexibility to re-risk as visibility improves.

As clarity returns, particularly on the policy front, we would look to reduce our underweight, with Emerging Markets likely to be the main beneficiaries of any increase in equity exposure. Our approach to Emerging Markets is to adopt a more granular strategy rather than relying on broad index exposure. We see particular opportunity in the ASEAN region, which is well positioned to benefit from a weaker U.S. dollar and lower oil prices. At the fringe of the EM universe, we continue to favour Frontier Markets, as they benefit from the post-COVID reorganisation of supply chains, with the focus on resilience over efficiency, as well as the increased geopolitical fragmentation. Frontier Markets also provide attractive diversification benefits as their economy is more domestically driven and thus less correlated to global macro cycles.

Fixed Income

Favour credit risk over duration risk

Key Takeaways

- We expect the U.S. yield curve to steepen, driven by the return of term premiums at the long end.
- The ECB is approaching the end of its easing cycle, however euro-denominated government bonds become increasingly attractive—even for USD-based investors.
- Given the complex outlook and high uncertainties around interest rates, we remain cautious on duration risk.
- We favour allocating part of our risk budget to credit, where we see a compelling risk/return profile with attractive all-in yields for controlled credit risk.

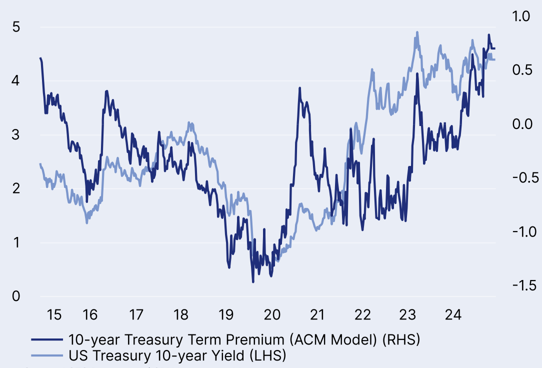
The Comeback of Bond Vigilantes

While recent inflation trends have shown signs of moderation, the ongoing trade war continues to cloud the outlook and complicate the Fed's task. As firms exhaust pre-tariff inventories, pricing pressures are likely to intensify, particularly in core goods categories. As a result, we expect inflation to remain sticky, while growth may moderate. With inflation still above target and risks skewed to the upside, we expect the Fed to hold rates at current levels until the labor market weakens more markedly. Mounting fears over the sustainability of U.S. fiscal policy, following President Trump's announcement of the Big Beautiful Bill and Moody's downgrade of the U.S. sovereign credit rating to Aa1 led 30-year yields to 5.15%—the highest levels since late 2023. The proposed legislation could increase primary deficits by $2.4 trillion over the next decade, with the fiscal impact heavily front-loaded. Even though some offsetting measures, such as tariff revenues and federal job cuts, are proposed, the overall fiscal stance remains aggressively expansionary.

Since "Liberation Day," most of the increase in long-end yields stemmed from a rising term premium, reflecting investors' growing demand for compensation amid elevated uncertainty around fiscal policy, inflation dynamics, and the trajectory of interest rates. In this context, the return of so-called "bond vigilantes" is becoming increasingly visible, as investors react not only to fundamentals but also to the growing lack of policy clarity. This dynamic is likely to keep upward pressure on long-end yields while short-end rates remain anchored by Fed policy expectations. As a result, the curve should continue to steepen through the second half of the year, reinforcing the case for careful duration management and positioning within fixed income portfolios.

Bond Vigilantes Are Driving a Repricing of the Term Premium

Upward pressure on the long end of the yield curve to drive further steepening



Source: LSEG Datastream/ CBH Investment Management

The ECB is Nearing the End of Its Easing cycle

The risk for eurozone interest rates remains skewed to the downside, in our view, driven by the negative growth and inflation effects of global trade uncertainty and the appreciation of the euro. The European Central Bank (ECB) has cut its deposit rate by a further 25 basis points to 2% in June, but we anticipate the pace of easing to slow going forward. The ECB faces a complex outlook amid persistent trade tensions and the risk of an inflation undershoot in 2026. Wage growth remains moderate, while declining energy prices and a stronger euro are putting substantial downward pressure on inflation. In its baseline scenario, the ECB has assumed a flat 10% tariff rate with a total GDP impact of 0.65%. However, a more severe escalation in tariffs could further dampen growth, inflation, and interest rates. Barring a sharp deterioration in trade relations, we expect no more than one additional 25 basis point rate cut in the second part of the year.

While the U.S. dollar and Treasuries are likely to retain their role as the world's dominant reserve currency and safe-haven assets, investor efforts to diversify away from U.S. exposure may lend relative support to the euro and euro area government bonds. This reallocation could be fuelled by both foreign inflows and shifts within the region itself. Structural challenges in the euro area persist—including fragmented governance, high public debt, and weak productivity—but improving medium-term growth prospects, particularly in Germany, alongside rising credit quality and increased sovereign issuance, are enhancing the relative appeal of euro-denominated assets.

The Risk/Reward Outlook Remains Supportive for Credit

The outlook for global high yield and credit remains cautiously constructive for the second half of 2025. Despite heightened macro uncertainty and uneven growth prospects, the asset class is underpinned by improved fundamentals and resilient technicals. Since the pandemic, high-yield issuers—particularly in the U.S.—have significantly strengthened their balance sheets. Key metrics such as leverage and interest coverage have improved, while companies have extended debt maturities, reducing near-term refinancing risks. At the same time, the composition of the U.S. high-yield market has shifted, with BB-rated bonds now comprising over 50% of the benchmark—up markedly from a decade ago. This structural move toward higher quality supports tighter spreads. As a result, current spread levels should not be assessed purely against historical norms, as they increasingly reflect improved fundamentals and a stronger overall credit profile.

On the technical side, persistent demand for carry continues to support valuations, helping to keep spreads contained despite slower economic momentum. U.S. HY experienced strong inflows in 2024 as investors chased yield during the Fed's pivot to easing. On the other hand, limited issuance has kept supply muted, with US HY non-financial bond issuance in the first part of 2025 declining from the same period of 2024. Reduced supply partly reflects companies leveraging stronger internal cash flow as capex dries, with some opting for private credit or loans. We specifically favor global short-term high yield for its reduced interest rate sensitivity and lower probability of credit events, without sacrificing carry.
In credit we continue to like corporate hybrid bonds. These instruments offer yields close to high yield levels but with a lower probability of default, as the vast majority of issuers are large, investment-grade listed companies. The attractive yields are primarily due to the subordination and structural features of these instruments. We also appreciate that this asset class is dominated by European issuers in non-cyclical sectors such as utilities and telecoms, which helps reduce exposure to the risk of US tariffs.

While fundamentals remain solid, rising macro and policy risks—especially from tariff-related uncertainty—make issuer selectivity critical. Active credit selection will be essential to navigate potential idiosyncratic stress. Overall, we maintain a high-conviction, selective approach to high yield, focusing on quality issuers and active risk management as global policy and growth signals remain mixed.

Forex

Policy uncertainties are eroding U.S. exceptionalism and redefining the currency outlook

Key Takeaways

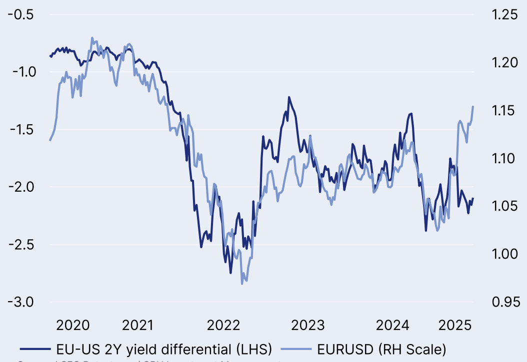
- The new U.S. administration's policies have eroded the perception of U.S. exceptionalism, clouding the outlook for major currencies.
- The yen may benefit from its safe-haven appeal; however, limited policy visibility from both the Fed and the Bank of Japan suggests relative stability in Q3.
- While sentiment and capital flows drive short-term moves, the recent surge in EUR/USD aligns with a downgrade in U.S. growth expectations.
- Ongoing uncertainty surrounding U.S. assets may trigger capital outflows, putting downward pressure on the dollar in Q3.

Confidence Crisis for the Greenback

Following the tariff announcements and the subsequent 90-day pause in early April, the U.S. dollar weakened markedly, with EUR/USD easily breaking through the 1.10 resistance level. In our view, this decline was largely driven by heightened uncertainty around trade policy, prompting investors to reassess U.S. economic prospects and dampening sentiment toward U.S. assets. EUR/USD diverged from its typical fundamental drivers, particularly the euro-dollar yield differential. Despite 10-year U.S. Treasury yields rosing from about 4.0% in March to 4.6% by mid-May —levels not seen since late 2023— amid concerns that tariffs would sustain inflationary pressures, the dollar depreciated against the euro, indicating a clear decoupling from yield fundamentals.

Trade Uncertainty Has Led to a Decoupling From Yield Spread

EUR/USD vs 2-year yield differential EUR-USD



Source: LSEG Datastream/ CBH Investment Management

More recently, the proposed "Big Beautiful Bill" fiscal package, which could add up to $2.4 trillion to U.S. deficits over the next decade, has further pressured the dollar. This sizable fiscal expansion has alarmed bond investors, often referred to as "bond vigilantes," who have driven up the 10-year Treasury term premium, contributing to the rise in long-term yields. Despite the enhanced carry appeal of higher yields, the dollar has failed to strengthen as concerns over fiscal sustainability and political uncertainty have undermined confidence in the greenback. This dynamic has fueled capital outflows and portfolio reallocations away from U.S. assets, further reinforcing the disconnect between currency movements and yield differentials. Overall, this divergence highlights the critical role that fiscal credibility and market sentiment play alongside traditional macroeconomic factors in driving FX market behavior.

Over the past decade, foreign investors have amassed more than $20 trillion in U.S. securities, including equities and Treasuries, reflecting the era of U.S. economic leadership and relative policy stability often described as "U.S. exceptionalism." However, as confidence in the U.S. outlook has started to diminish amid rising fiscal deficits and policy uncertainty, a partial unwinding of these large holdings has become evident. This retrenchment is a natural response to shifting risk perceptions, as global investors increasingly diversify their portfolios and reduce exposure to U.S. assets perceived as vulnerable. Such outflows, although moderate relative to the scale of accumulated holdings, contribute to ongoing pressure on the dollar and reinforce the broader trend of decoupling between currency movements and yield differentials. That said, since February—when 2025 growth expectations for the U.S. peaked at 2.3%—the rerating of EUR/USD has aligned with the narrowing expected growth gap between the U.S. and the Eurozone, which contracted from -1.4% to -0.5% as economists revised downward their projections for the U.S. economy in response to the Administration's new policies.

On the euro side, several factors have made the single currency relatively more attractive in recent months. While the euro area is not immune to external shocks, it is currently perceived as a more stable policy environment compared to the U.S. Eurozone core inflation has moderated steadily, allowing the ECB to continue its easing cycle without undermining the euro's appeal. At the same time, structural improvements in the euro area — including stronger current account positions, improving credit quality, and rising fiscal credibility in key member states — have made European assets more attractive to both domestic and foreign investors. Net foreign portfolio inflows into euro-denominated assets have picked up, reflecting not only relative value considerations but also a growing appetite for geographic diversification away from U.S.-centric holdings. With the eurozone now offering a more compelling balance between yield, stability, and valuation, the euro is benefiting from a repricing of risk across developed market currencies. This shift supports a constructive view on EUR/USD in the near to medium term. Going in Q3, we lift our trading range for EUR/USD to 1.12-1.17.

Positive But Muted Moves Ahead for Yen as Rate Paths Blur

In 2025, despite ongoing turmoil, USD/JPY has generally traded in line with the U.S.–Japan yield differential, though there have been notable exceptions during periods of heightened risk aversion and market volatility. The Fed is expected to keep its benchmark interest rate unchanged at its upcoming meeting, resisting calls for significant rate cuts despite President Trump's criticism. This decision reflects concerns over inflation risks—particularly from new tariffs—and a desire to maintain policy credibility. Market participants anticipate that rate cuts may resume later in 2025, with futures markets suggesting a 55% probability of a 25-basis point reduction in September, and another cut possible in October.

The BOJ has already raised its short-term policy rate to 0.50% earlier this year but is likely to maintain this level at its upcoming June meeting, with further hikes dependent on sustained inflation momentum. Amid recent market volatility, the BOJ is reviewing its bond-buying program to stabilize long-term interest rates, responding to reduced demand from domestic insurers and changing debt ownership dynamics. External factors, including U.S. tariffs, pose risks to Japan's export-driven economy and may have interrupted the BOJ's tightening cycle. The government is also exploring ways to encourage domestic ownership of government bonds to prevent sharp yield spikes. Looking ahead, the BOJ's policy will remain data-driven, balancing inflation goals and growth support. While tightening may resume in late 2025, its pace and timing will hinge on global trade developments and domestic economic trends, reflecting a cautious and flexible approach amid ongoing uncertainty.

As a result, the relative path of Fed–BOJ monetary policy is difficult to predict in the medium term, and a scenario in which both central banks stay on hold is plausible. In that case, we expect the yen to be mildly supported by its safe-haven properties, particularly when the epicenter of turmoil is in the U.S. We expect the USD/JPY pair to trade in the 140–145 range in Q3, before breaking below the key 140 level heading into year-end.

Geographical Presence

CBH is present in Geneva, Zurich, London, Luxembourg, Israel, Hong Kong, Rio de Janeiro, São Paulo and The Bahamas. Due to its international exposure, it is under the consolidated supervision of the FINMA in Switzerland and its affiliated companies are supervised by the CSSF in Luxembourg, the FCA in the United Kingdom, the Central Bank of The Bahamas, the SFC in Hong Kong and the CVM in Brazil

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All data as at June 2025

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