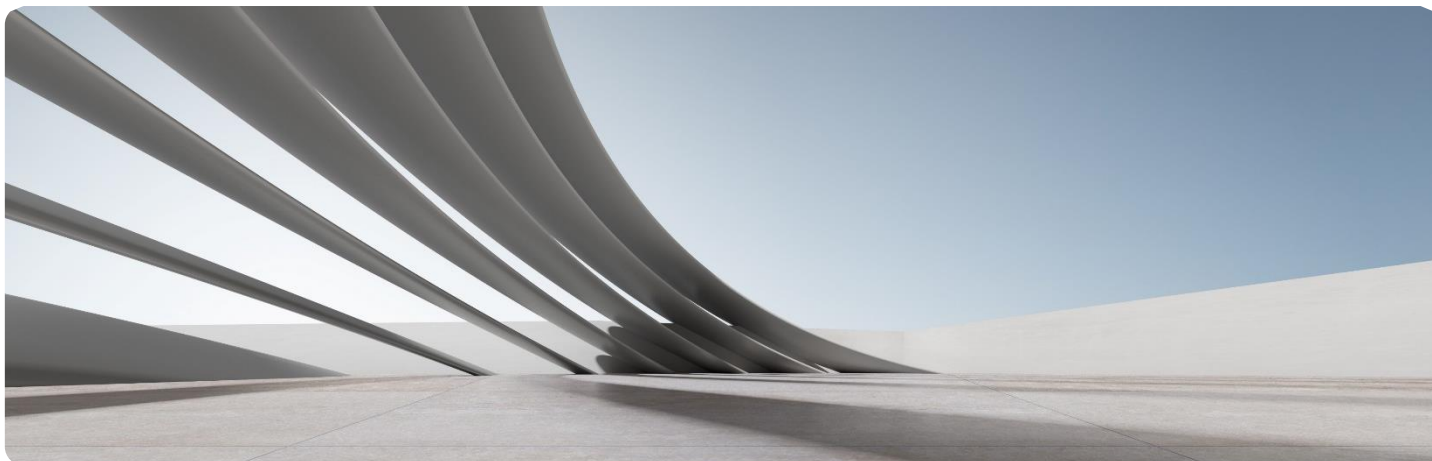


Rate cut(s) ahead, for good and bad reasons

- Fed chair Powell signaled easing ahead at the Jackson Hole symposium, warranted by softening labor demand
- Still, inflation risks are looming and US August flash PMIs were stronger than expected
- Our positioning is unchanged, and 2025 returns are spectacular after what is so far a positive summer



Let's start with the good news: 2025 so far is an excellent year for investments, including a volatile yet positive summer.

There are fundamental reasons, from an overall resilient global economy to solid corporate earnings, but also, importantly, behavioral factors. Indeed, many global investors fell victims of a tariffs anxiety and adopted a very defensive positioning earlier this year, especially on stocks across developed and emerging markets. From trade truce to trade deals, from macro resilience to robust profits, each good news was painful for the most defensive investors: they bought on strength, supporting the rally further.

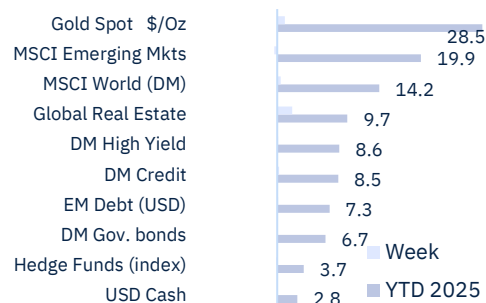
The latest good news came Friday with Fed chair Powell's speech at the Jackson Hole Symposium, where he clearly opened the door for a rate cut in September. There are good reasons, namely the softness in the US labor market from the recently revised data. There are also bad reasons, which are the pressure from the US administration, at a time when inflation risks from tariffs and fiscal generosity are still serious. Meanwhile, US flash PMIs also released last week surprised to the upside. This is why we do not expect a "jumbo" rate cut in September and think inflation and labor data still matter.

Still, markets enjoyed the news, especially equities for which having both monetary easing and a resilient economy is ideal. Having said that, valuations are now optimistic, and the support from behavioral factors will not last forever. It is interesting to note that bond markets did not show massive euphoria, with a modest "bull steepening" last week. The Fed has all reasons to be very gradual and data-dependent: visibility remains low, and volatility could come back.

The week ahead includes US PCE inflation on Friday as well as quarterly results from Nvidia, Alibaba and BYD.

Have a great week.

Asset Classes USD % total. Return, Week and YTD 2025



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Cross-asset Update

As we resume our weekly publication, following a brief summer pause, this is a good time to have a fresh look at our strategies so far in 2025 and at our positioning.

Starting with the returns, we find ourselves, once again, in a relatively awkward position: our three profiles have already widely exceeded our initial performance expectations for the year. In January, we published an annual forecast of positive returns between +4 to +8% for our strategies. As of last Friday, our cautious, moderate and adventurous profiles are respectively up +9%, +11% and +13%. The reality so far exceeds our prediction, but the good news is that it also does better than most of our global competitors. Our three funds of funds which implement our strategies rank in the first quartile of their global peer groups. So that's, in essence, a good problem to have.

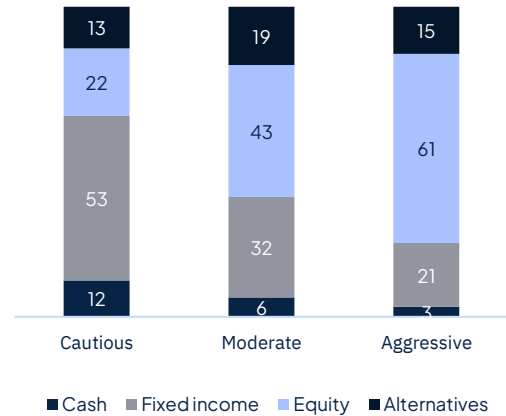
What happened? Looking at the year-end fair values that we also published during our global investment outlook, the main factor is that stocks are doing ~5% better than we expected, which can partially be attributed to a resilient US economy and solid earnings. We were a bit too cautious (although never outright bearish) on the US and Europe. Still, our fair values for fixed income or gold are so far very relevant. And the most interesting feature remains the fact that despite not being aggressive (we target capital preservation on a given horizon above anything else), we outperform most of our global peers. This is why, regardless of sentiment surveys, we know that they were and maybe still are way too cautious. We also benefitted from being overweight in both gold and EM stocks, the best performing asset classes of the year, and underweight in hedge funds, one of the laggards.

Our current positioning is slightly defensive. Defensive as we overweight cash, quality bonds, gold, and are a bit underweight on stocks from developed markets. Their valuation is the main reason why we are defensive. But only slightly: we overweight stocks from emerging markets and saw the current "Winds of Change" as a source of uncertainty rather than as an outright catastrophe. Uncertainty is a reason to be neutral, i.e. close to our strategic asset allocation. It's not a reason to be bearish by itself. There is abundant academic literature that shows that trying to time the next market shock is extremely difficult, and potentially much costlier than just staying invested.

Still, we are not overly comfortable with the current opportunity set which to some extent combines low visibility with pockets of very rich valuations. Inflation risk remains a key unknown, as well as tariffs trajectory and of course geopolitics. US stocks are expensive, while their European peers seem to have taken for granted an economic rebound which so far hasn't materialized. We find more comfort in emerging regions, especially China for the medium to long-term.

We will continue to focus on anything happening in Washington DC. Like it or not (we don't), US policies and developments remain the key driver for markets for now.

Tactical Asset Allocation: Simplified Positioning



TAA – Relative Positioning – Moderate Profile

UW/N/OW: Underweight/Neutral/Overweight

	UW	N	OW
Cash			>
DM Gov.			>>
DM Credit		=	
DM H. Yield		=	
EM Debt		=	
DM Equity	<		
EM Equity		=	
Gold			>
Hedge Funds	<<<		
Real Estate		=	

Fixed Income Update

Chairman Powell's changed tune from the earlier focus on tariff driven inflation to a shaky labour market during his address at the Jackson Hole Symposium last Friday. He mentioned that "with policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance," effectively underwriting a rate-cut in the September FOMC meeting. He also, refrained from any indication that he's expecting outsize rate reduction of 50 bps. This dovish turn contradicted with July FOMC meeting minutes released earlier last week, where most Federal Reserve officials highlighted the risk to inflation as outweighing concerns over the labour market.

The yield curve bull-steepened due to the combination of rate cut expectations and lingering inflation concerns. the spread between 5- and 30-year rates touched a new cycle high at 112bps. Two-year yields were down about 10 basis points to 3.7%. However, the long-end rally in the treasuries is quite circumspect and even with Friday's gains, bond yields still haven't pushed below lows from earlier this month as investors wait for employment and inflation data that come in before the next meeting. The July PCE index will be published this Friday and would provide short term direction to the long-end yields. We expect a bearish reversal if employment continues to hold since the Fed's dovish turn would support growth and may lead to higher inflation in the future. Also, September is technically a bearish month for US Treasuries.

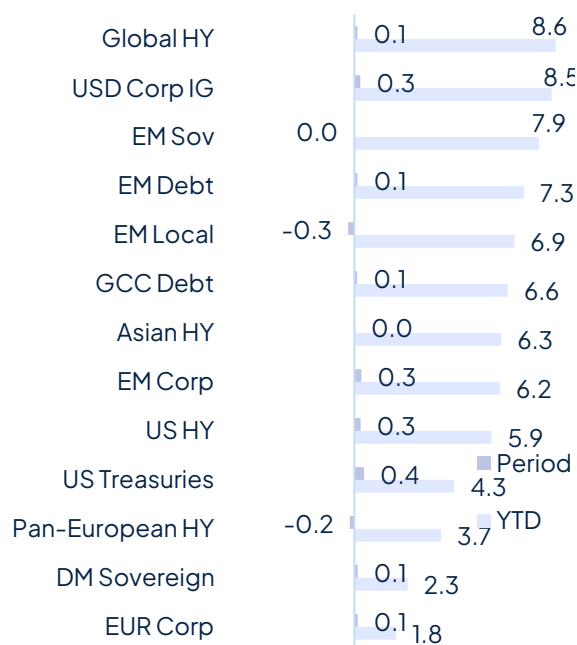
Investors are rushing to lock in high corporate bond yields before the Federal Reserve resumes easing. Yet credit spreads near 27-year lows look stretched given warnings over a weak job market. IG corporate bond sales are on track to match 2024's level and may even beat it to set a five-year high. However, the net supply remains negative subtracting the \$71 billion maturity and coupons of \$35 billion expected in August. The extra yield that investors receive for owning investment-grade corporate bonds instead of Treasuries shrunk to just 72 basis points, the lowest since 2007. This is the primary reason to avoid long-duration in FI portfolios now. HY Q2 earnings has been strong according to a JPM analysis. 37% companies have beaten EBITDA expectations Vs 14% which have missed EBITDA expectations. 29% companies have warned of inflationary pressures down from 41% in Q1 while 23% of companies have warned about the effect of tariffs.

GCC issuance bandwagon has opened with three mandate announcements from well-known banks in the KSA. First, Banque Saudi Fransi announced a Tier 2 bond issuance with a 10-year maturity, non-callable for 5 years, and an expected rating of BBB by Fitch. Second, Saudi Awwal Bank, which is partially owned by HSBC, which also announced a Tier 2 bond issuance with a 10-year maturity, non-callable for 5 years, with expected rating of Baa2 by Moody's and BBB by Fitch. In addition, Alinma Bank announced a perpetual Sukuk "Tier 1". Alinma is the fifth largest bank in Saudi Arabia and the second largest Islamic bank, with total assets of around USD 79 bn, as of June 2025.

Fixed Income Key Convictions

DEVELOPED MARKETS
Overall overweight DM FI
OW Government Bonds
Neutral corporate (IG & HY)
EMERGING MARKETS
Neutral EM Debt
Favor quality and selectivity
Including in GCC

Fixed Income Sub Asset Class Returns (US\$ TR, YTD, Last Week)

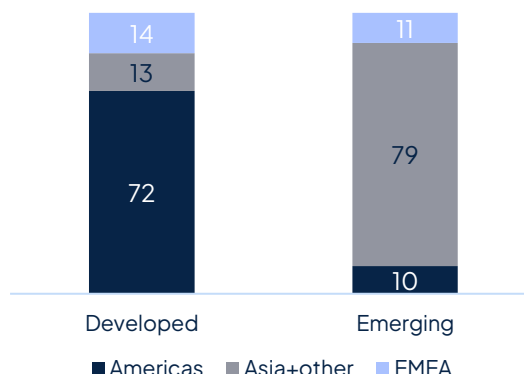


Equity Update

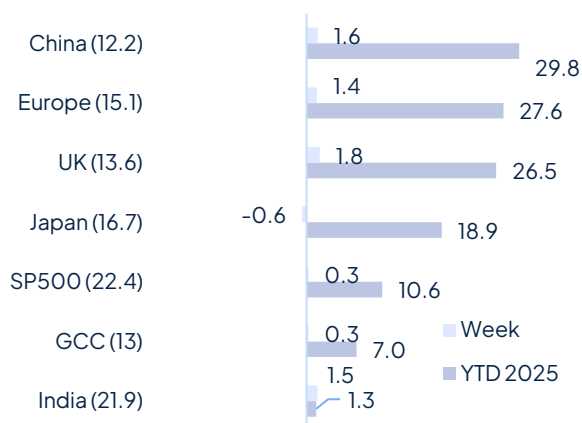
Global equities climbed cautiously last week with the MSCI ACWI rising 0.4%. Developed markets gained 0.5% and emerging markets slipped 0.4%. The week was marked by volatility in the middle of the period that gave way to relief after Jerome Powell signaled that the Federal Reserve is preparing to cut rates in September. In the United States the S&P 500 finished 0.3% higher after enduring sharp swings. Nvidia's pullback early in the week rattled the Nasdaq and pushed it into its steepest two day slide since April. Buyers returned quickly and carried the broader market higher into the weekend. The second quarter earnings season also provided a positive backdrop. With 90% of the S&P 500 having reported results for the second quarter, 81% have exceeded earnings per share estimates. This is above the five year average of 78% and the ten year average of 75%. Aggregate earnings growth now stands at 11.8% compared with expectations of only 4.8% at the start of the reporting season. This beat has provided a cushion for valuations and reassurance even as macro risks linger. In other corporate news, Intel advanced over 5% after Washington agreed to take a strategic stake in the company which underlined how political priorities and corporate fortunes are becoming increasingly intertwined. Walmart dropped after posting its first profit miss in three years as costs related to tariffs and insurance claims bit into margins. Workday also slid after strong subscription growth was offset by weakness in professional services and a cautious outlook. The contrast between broad based earnings strength and the harsh reaction to isolated misses captures the selective tone of this reporting season. Nvidia remained at the center of attention. With a valuation above \$4.3 trillion and an outsized weight in benchmarks its moves carry disproportionate influence on market direction. Reports that the company halted production of its H20 chips targeted at China after Beijing discouraged domestic use reverberated across the technology sector. The development boosted Chinese semiconductor names as investors bet on demand shifting to local suppliers. Shares of Hygon and Cambricon surged more than 20% and the CSI 300 recorded its strongest week since last November.

Europe outperformed with the Stoxx 600 climbing close to record highs. UK equities led the advance as the FTSE 100 benefited from defensives and resource heavy names that continue to look cheap relative to US peers. Defense names also gained for a third straight session as broker upgrades coincided with speculation about Europe's longer term security commitments. The pattern is one of steady flows into sectors that provide resilience and predictable income. Asia delivered a mixed performance. The MSCI China Index rose 1.6% as the Shanghai Composite closed at its highest level in a decade. Policy pledges to tackle excess capacity in industries such as autos and batteries combined with enthusiasm for homegrown artificial intelligence helped fuel momentum. Consumer facing stocks popular with younger buyers such as Pop Mart and Laopu Gold jumped on robust earnings and international expansion. The rally has been powerful enough to overcome weak macro data as liquidity and sentiment dominate. Not all names participated. Baidu reported its steepest revenue decline since 2022 as advertising fell and its AI investments failed to offset the weakness. The result highlighted the divide between winners and laggards in China's technology landscape. All eyes are now on Nvidia's earnings this Wednesday, a potential catalyst that could either reinforce or challenge the current AI-driven momentum.

Equity Recommended Regional Positioning

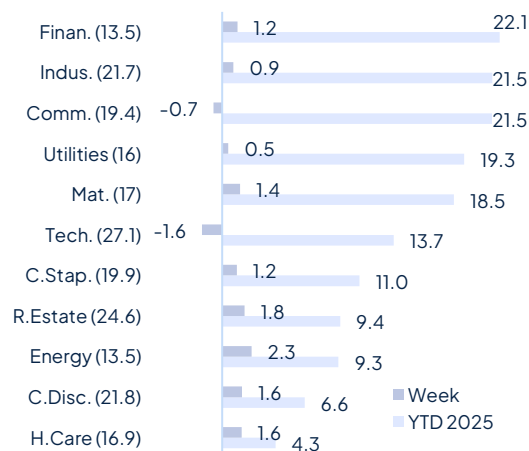


Major Indices Performance (TR, US\$), P/E in brackets



Source: Bloomberg consensus. MSCI Indices unless specified.

Global Sector Performance (TR, US\$), P/E in brackets



Source: Bloomberg consensus. MSCI All Country World sectors US\$.

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