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MARKET OVERVIEW JUNE 2025

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IS THE TRADE WAR A CLOSED CASE?

The chaos of April has given way to greater calm in the world's major financial centers. Stock markets have rebounded strongly since the now-famous "Liberation Day" of April 2 (Donald Trump's theatrical presentation of reciprocal tariffs); the main global index, up 5% since January 1 (in dollars, but down 4% in euros), is near its highest levels of the year. Despite concerns about the trajectory of the federal budget deficit, tensions in the US bond markets have eased—the yield on the 10-year Treasury bond (4.40%) is below its level at the beginning of the year. While the legality of the White House's tariff policy is being challenged in court, investors remain hopeful that negotiations between the United States and its trading partners will lead to agreements whose potentially negative consequences for the global economy remain limited.

ARE INVESTORS IN DENIAL?

We can only welcome the strong rebound in stock market indices and the return to calm after the April storm, a rebound helped in part by a season of good quarterly corporate earnings releases, particularly in the United States (profit margins still close to their highest), a key point to justify valuation multiples that remain historically high. Even if tariff uncertainties will remain high between now and July 9, the date of the end of the suspension of reciprocal tariffs, and while Donald Trump's almost daily statements do nothing to help accurately establish a likely macroeconomic scenario for the coming months, investors have decided to keep a cool head . **The fundamentals of the American economy do not show any convincing signs of weakening.** International investment fund managers are therefore hesitant to "bet" against this economy and especially against the New York Stock Exchange and its stars, particularly in the context of the technological revolution of artificial intelligence (AI). At most, we are observing the beginnings of a reallocation of financial assets in favor of international equities. Relatively cheap European assets are benefiting from the German stimulus plan (around €1 trillion deployed over the next ten years) led by the new ruling coalition, which breaks with the immobility of the Merkel years. **Unusually in recent years, European equities, up around 8% since the beginning of the year, are significantly outperforming US indices.** We note in passing the return to better fortunes of small market capitalizations, which have been penalized for too long by investors' disinterest in this asset class, considered illiquid – an argument that may raise a smile in the face of the enthusiasm for *private equity. equity* – and too exposed to the European economy. Overregulation by the EU has not helped; the disappearance of many brokers specializing in small caps is a testament to this. Lower-valued emerging markets (especially in Asia excluding India) are also attracting capital seeking better geographic diversification – the United States accounts for nearly 65 to 70% of the world's major indices.

An outside observer might describe investors' refusal to acknowledge the Trump administration's desire to seriously challenge the United States' recent decades of development as a form of superb denial, at the risk of weakening the fundamentals of a hitherto flourishing economy in the short term. Yet the trade war is hitting the American consumer, the cornerstone of the country's economic growth, hard. While it is increasingly likely that revenues from tariffs will not be enough to finance the new fiscal largesse in terms of tax cuts, public deficits are fueling fears about the federal debt—concerns that are undoubtedly excessive, given that the Federal Reserve, the lender of last resort, is always ready to act in the event of a financial crisis. **In this anxiety-inducing context, it would be logical for investors to revise upwards the risk premium required on American assets** (rising real interest rates on bonds issued by the Treasury to compensate for currency risk and the deterioration of public finances, decreasing the valuation multiples of American stocks to return, for example, to the average of the last ten years, i.e. 18.5 times expected twelve-month results compared to 21 today). This is not what we are seeing. Certainly, the dollar has weakened and gold continues to climb, but what is usually called the exceptionalism of the American economy is not seriously questioned. International investors undoubtedly lack serious alternatives to dollar-denominated assets and keep in mind the formidable outperformance of the New York Stock Exchange over the last fifteen years, which we can call an inertia effect. Emerging assets regularly suffer from public governance issues, and the EU needs to confirm its recent awakening, triggered by Donald Trump's brutality toward it since his arrival in the White House (continuation of simplification efforts initiated with the Omnibus directives, real impact of the recommendations of Mario Draghi's report on competitiveness at the level of public policies). **The discount of global equities vis-à-vis the United States can only be absorbed if the relative earnings dynamic becomes more favorable to them. This hypothesis is perhaps more**

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credible today, especially in Europe from next year (first tangible effects of the German recovery plan).

STOCK MARKETS BENEFIT FROM EARNINGS SEASON; THE RETURN OF ARTIFICIAL INTELLIGENCE (AI)

first -quarter **earnings releases , we must acknowledge that the performance of American companies is very good.** Quarterly earnings growth over one year exceeded 13% for the main index, a performance well above the consensus (+7% expected at the end of March) and which is not based solely on the "Magnificent Seven" whose results are still up 28%, a pace that far exceeds the 16% forecast by the analyst community before the start of the releases. American technology leaders (especially Microsoft, Meta and Alphabet) have therefore done more than simply reassure, and confirm their superiority over the rest of the world, even if the DeepSeek episode (new Chinese player in generative AI whose products have nothing to envy from the major American language models such as ChatGPT) and Beijing's announcements in the segment of semiconductors intended for generative AI (recent press releases from the giant Huawei) have demonstrated that the race for technological leadership is only just beginning.

We can also note that investment themes related to AI and more generally to digital technologies have been put on hold since the outbreak of the trade war and the first fears of an investment bubble ready to burst, concerns which for the moment have not found convincing echoes in the publications of investment plans of *hyperscalers* (*cloud leaders*) and other AI players. Capital expenditures in generative AI for the current year are even higher than forecasts at the beginning of the year. **However, we cannot overemphasize the importance we believe of the rapid and very large-scale deployment of technologies capable of boosting productivity gains and consequently the potential growth of the economy.** We have been stressing this crucial point for a long time: stretched stock market valuations can only be justified on the assumption that profit margins remain high and profit growth remains solid, close to 10% per year. Uncertainties related to the White House's tariff policy, however, are weakening the outlook for short-term economic growth, and therefore for corporate profit growth. Companies are slowing down or postponing their development projects and new hiring, while households are tending to moderate their consumption in favor of savings. Even if Donald Trump sticks to an average tariff of around 12 to 13%, or about four to five times the average level of Joe Biden's previous term, which is fairly close to the consensus, the impact on US economic growth and consequently on corporate results will by no means be marginal (around 0.5% of gross domestic product). Deregulation policies (particularly in the banking and energy sectors) and promises of tax cuts could prove insufficient to restore the confidence of economic agents. According to economists at the ODDO BHF group, the scenario of average tariffs at 15% combined with the sharp contraction in labor immigration already observed and which has played a key role in the country's dynamism in the recent past would represent a 1% shock to gross domestic product (GDP) over a two-year horizon! The contribution of AI and, more generally, the digitalization of economic activities is therefore fundamental to restoring momentum to businesses. **From this perspective, while environmental and societal issues cannot be overlooked, i.e., negative externalities, the possible inability of AI (not just generative AI) to significantly boost business productivity would undoubtedly be a much more worrying scenario for financial markets than trade tensions alone.** In the United States, the consensus earnings growth for the 2025 financial year (+9%) and the demanding valuation of technology stocks, to say the least, perfectly reflect investor optimism on this issue. The margins of safety are therefore slim, but at this stage we remain convinced that the AI revolution is only just beginning and will ultimately be a powerful driver of improvement in the potential growth of the economy.

CONCLUSION

Only a well-balanced asset allocation can safely navigate this period of uncertainty, which, despite the observed lull, is far from over. The recent decision by the United States Court of International Trade, which questions the legality of the general customs duties (including reciprocal duties and the minimum 10% tariff) implemented by Donald Trump, seems to seriously reshuffle the cards. If the Supreme Court were to ultimately uphold this decision, which concerns the constitutional prerogatives of the President and Congress in matters of international trade, Donald Trump will still have the freedom to apply more targeted tariffs by sector of activity (for example, in the automotive, steel, or semiconductor industries). It should be noted that the duties imposed on China do not appear to be threatened under the legislation on trading partners deemed "unfair." The matter is therefore far from over.

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