UBP House View

June 2025

Union Bancaire Privée

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Editorial

Back to basics

The first half of the year was a whirlwind whipped up by President Trump's tariff agenda. However, it ended on a positive note in May, with markets rallying on signs of a trade-war de-escalation, notably between the US and China. Trade deals now appear to be a more plausible scenario.

Investor attention will gradually pivot back to leading indicators and corporate fundamentals. While we are steering clear of a recession for now, the macroeconomic damage of Trump's policies still needs to be fully assessed.

Meanwhile, equity risk premiums are eroding amid high interest rates, and valuations remain elevated despite slowing corporate profit growth. This dynamic poses a real test for the sustainability of the US equity rally.

As a result, we are not counting on clear skies. In the wake of an exogenous shock driven by Trump, we are reverting to a diversified allocation approach, as all assets are meant to generate income while also being able to absorb market stress.

Contents

The opinions expressed in this document are as at 6 June 2025 and are subject to change without notice.

Key investment themes & risks

Key investment themes

1. Receding recession risks enhance the appeal of high-yield bonds.

2. Global defence is a notable area of interest due to earnings growth visibility.

3. Rising US deficit and debt levels are fuelling pressure on interest rates.

4. The erosion of the equity risk premium favours selectivity.

During May, overall market sentiment improved as the US administration shifted its focus towards fiscal support and continued to ease global tariff policies. These actions helped reduce the likelihood of a significant slowdown in the world's largest economy, but increased tensions on the Treasuries market. At the asset allocation level, these policies have provided relief for global equities and credit, but have negatively impacted long-term US interest rates and the US dollar, while supporting gold prices.

In response, we decided to shift our asset allocation slightly by reducing global macro strategies within our hedge fund exposure, and by increasing investments in high yield, particularly senior loans, corporate hybrids, and AT1 bonds which have limited exposure to long-dated instruments. We upgraded our rating for high yield from 3/5 to 4/5, as the visibility for risky credit to outperform cash deposits in USD is increasing. In contrast, we downgraded global macro strategies in hedge funds from 4/5 to 3/5, as the performance dispersion within our portfolio was difficult to manage in the first half of the year. Nevertheless, our overall positive view on hedge funds remains unchanged.

For equities, the global earnings growth forecast of 8–10% on the MSCI ACWI index for 2025 is now aligned with our expectations. However, the recent market recovery has been largely driven by the expansion of valuations, pushing them above post-pandemic averages; this may limit short-term upside, especially if interest rates remain elevated. We have kept our rating on the asset class (3/5) unchanged and have initiated a position in the defence sector with a long-term investment horizon.

Risks

Recession risks have moderated, helped in part by the recent easing of trade tensions, particularly between the United States and China. While this de-escalation has improved market sentiment, uncertainty remains elevated. Volatility could re-emerge as the deadline for a more comprehensive trade agreement approaches, especially if no meaningful progress is made in the interim.

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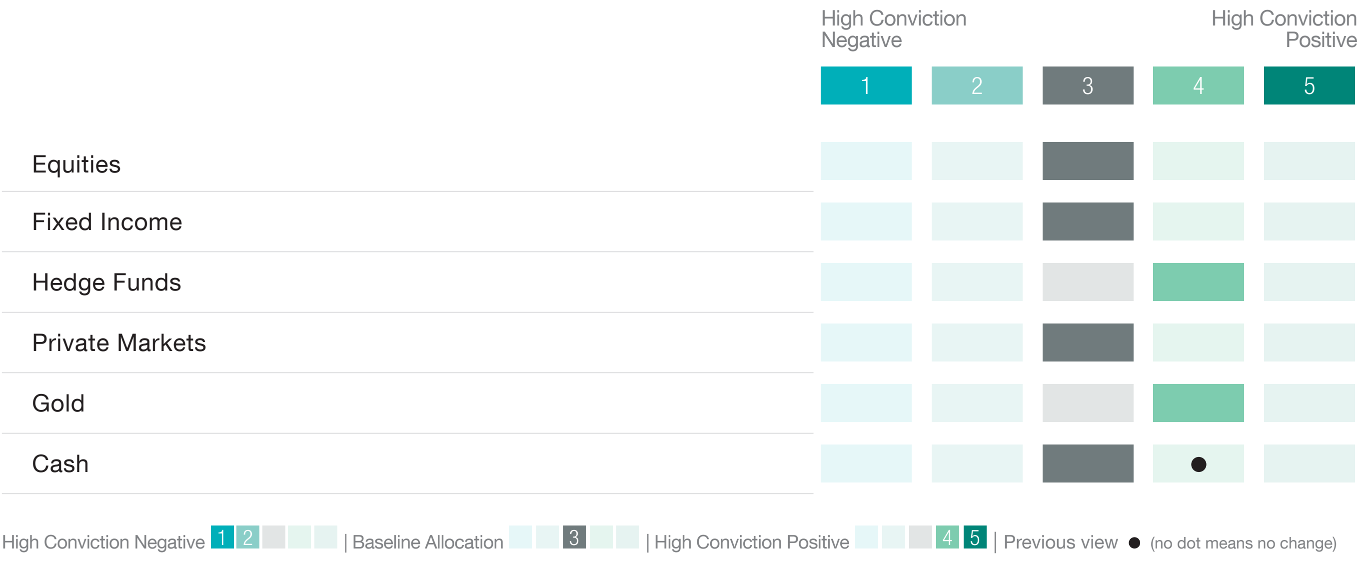
A key concern is the growing US budget deficit. Recent fiscal legislation is expected to accelerate the pace of public debt accumulation over the next decade. This structural imbalance increases the likelihood of upward pressure on long-term interest rates, as markets demand higher yields to absorb rising supply. In addition, inflation could surge again due to ongoing tariffs. The Federal Reserve may face limited policy flexibility, potentially constraining its ability to respond to future economic slowdowns. Against this backdrop, we continue to favour short-duration bonds to help manage interest rate risk while preserving flexibility.

Geopolitical risks also continue to loom large. Rising tensions in key regions, evolving defence postures, and increased fragmentation of international alliances are contributing to an unpredictable policy environment. These developments may impact global capital flows, commodity markets, and investor confidence, reinforcing the need for prudent portfolio diversification and close monitoring of geopolitical developments.

In parallel, the US administration is apparently pursuing a strategy of encouraging a weaker dollar in an effort to reduce import dependency and bolster domestic manufacturing. While this may support certain sectors of the US economy, a structurally weaker dollar has broader implications for global investors. For international holders of USD-denominated assets, currency depreciation could erode real returns. As a result, non-US investors should remain vigilant and consider actively hedging their dollar exposures to preserve purchasing power and maintain portfolio stability.

Asset allocation: strategic views as at June 2025



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Macroeconomics

Trade and budget deficits: How the US is reshaping the world

Trade agreements are in sight, but discussions are difficult.

The 90-day pause on tariffs for all countries, including China, has given the markets breathing room, and economic activity continues, albeit at a moderate pace. After a flurry of tariff increases on the so-called 'Liberation Day', the US administration now seems eager to enter into trade agreements.

Our scenario favours the signing of trade agreements between the US and major trading partners, which would limit US tariff increases to minimum increases of 10%. In this context, both the global economy and the US would avoid recession, and global growth would be 2.7%.

US growth could reach 1–1.5% in 2025. However, activity is likely to remain volatile over the coming quarters. After an expected rebound in the second quarter, risks remain for the third quarter due to uncertainties related to ongoing trade negotiations. Pressures remain upon China and the eurozone, but US domestic activity now looks less robust than in the past year and is exposed to trade disruption and rising tariffs. Nevertheless, tax cuts should bolster some consumption and investment segments towards the end of the year.

Elsewhere, activity performed well at the beginning of the year, and the pause in tariffs is sustaining growth in a number of regions.

In Asia, activity continues to grow, driven by exports, while it remains fragile in China. The region is expected to grow by around 3.4%, thanks to sustained activity in India (6.4%) and a stabilisation in China. China's dependence on exports remains high, and consumption is fragile because the country's housing crisis is not over. We remain cautious in our outlook and expect Chinese growth to reach 4.1% in 2025.

Europe posted sustained growth of 0.3% in the first quarter as it benefited from a surge in production and trade ahead of anticipated tariff hikes. While the UK reached a trade agreement with the US, uncertainties surrounding negotiations with the eurozone remain high after Trump threatened to raise tariffs by 50%. Nevertheless, a compromise is expected to be reached through reduced tariffs and the easing of non-tariff barriers. Overall, growth is expected to reach 0.7% in the eurozone and 0.9% in the UK by 2025.

US government is reactivating tax cuts

The US government wants to stimulate demand by reinjecting tariff revenues into the private sector. The current budget deficit is already 7% of GDP due to spending growth (9%), outpacing revenue growth (5%) and soaring debt servicing costs (11%). The draft budget for 2025–2034 shows no corrective measures, and the deficit is expected to remain between 6.5% and 7.5% of GDP. The emphasis is on tax cuts via perpetuating deductions launched in 2017 and implementing new cuts for households and businesses. These measures are expected to benefit wealthy households and large companies investing in a range of sectors, such as infrastructure and research & development. Budget savings will come from cuts to new energy subsidies and Medicaid spending.

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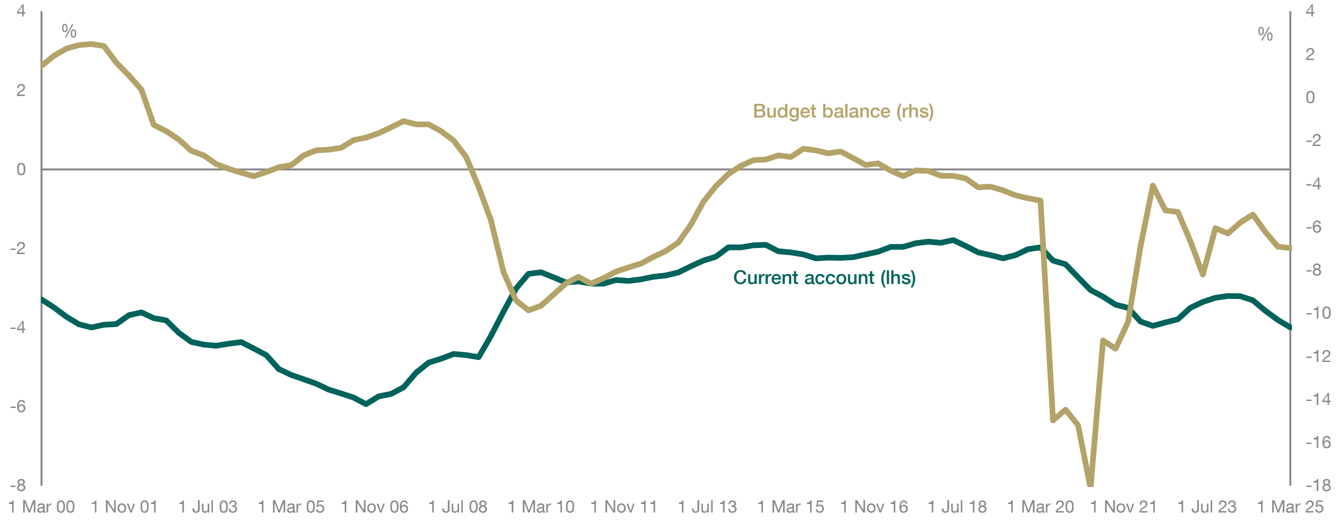
US TWIN DEFICITS ON THE RISE



Sources: Bloomberg Professional L.P., US BEA, UBP

US seeks trade agreements while its fiscal policy drifts

Overall, the US deficit and national debt are set to remain on an upward trajectory over the next few years, leading to pressure on yields and the rebuilding of a premium on US bonds.

Public finances are also drifting out of control in other major countries, and markets are demanding higher long-term yields. The International Monetary Fund (IMF) and the European Commission are concerned about public finances in France and the United Kingdom, and are reminding policymakers of the need for consolidation in the medium term. With its ReArm Europe Plan and Germany's stimulus policy, Europe is maintaining a high level of spending and is therefore calling on the markets for funding. In Japan, the government could ease pressure on yields by reducing its long-term debt issuance (30 and 40 years). Last, central banks could be called upon in the event of further deterioration in financial conditions or market instability risks.

Although US trade policy aims to redirect investment flows and rebuild its industrial base, fiscal policy drift is pushing up interest rates and endangering US debt. This could divert global savings away from the US to Europe and Asia.

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“We are reverting to a diversified allocation approach, as all assets are intended to generate income while also being able to absorb market stress.”

Strategy

Shifting focus from tariffs to global fiscal policies

Though tariff policies captured market attention in April and May, market drivers should shift towards fiscal policies in the US, Germany/Europe, and China in the months ahead.

The first draft of the US 'reconciliation' bill in May – seeking to extend the 2017 Trump tax cuts and fulfil campaign promises – was released; it proposes expanding the US deficit further while adding as much as an additional USD 2.3 trillion in debt over the next decade.

In June, Germany's new Merz-led government will begin the process of delivering on campaign promises of as much as EUR 1 trillion in defence spending and EUR 500 billion in infrastructure spending in an effort to reshape the nation.

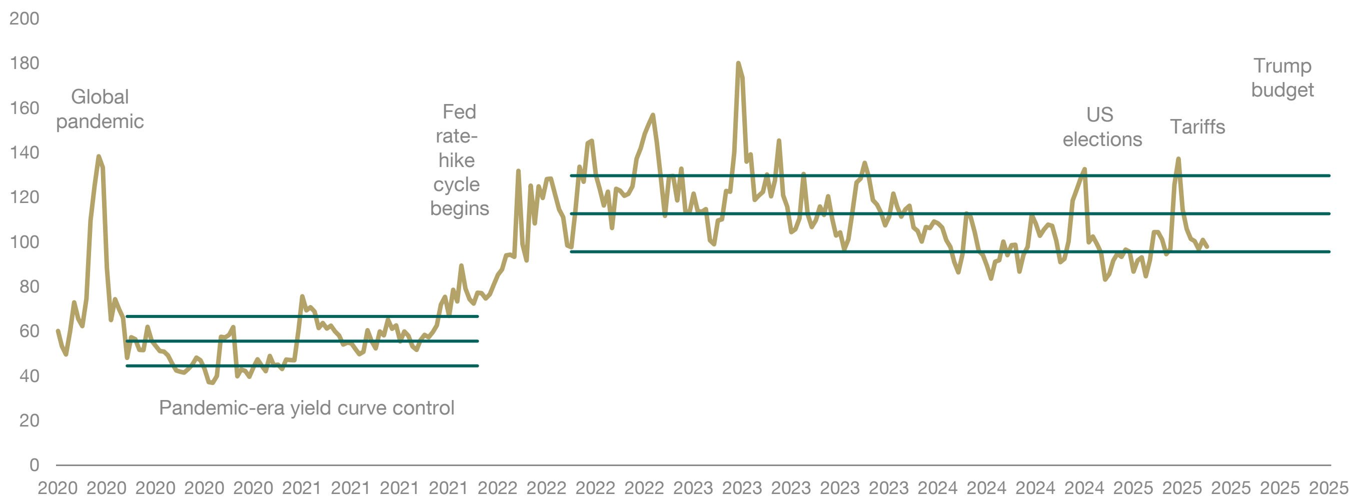
Similarly, likely beginning in July, details of China's latest Five-Year Plan should start to emerge ahead of its formal unveiling in October, potentially delivering the stimulus that markets have been awaiting since autumn 2024.

The May rebound in equity markets around the world partially reflects some of the effects of this coming fiscal spending round, which should only somewhat mitigate the downward pressure on growth that American tariff policies should have on global economies.

In contrast, bond markets are only beginning to price in this prospect with the renewed rise in long-dated bond yields around the world in late May. Investors should prepare for potential renewed bouts of interest rate volatility, as market uncertainty about US, European, and Chinese fiscal policy fades and meaningful fiscal stimulus is unveiled in the coming months, just as US inflation bottoms and sees the initial impacts of tariff policy put upward pressure on prices.

Such an environment should favour low-to-moderate-duration high-yield and hybrid credit strategies which are positioned to allow investors to capture attractive coupons while shielding portfolios from interest rate volatility, should it arise.

BOND VOLATILITY MAY RISE ONCE AGAIN AS TRUMP BUDGET POLICIES ARE UNVEILED IN THE COMING MONTHS



Sources: ICE BofAML MOVE Index

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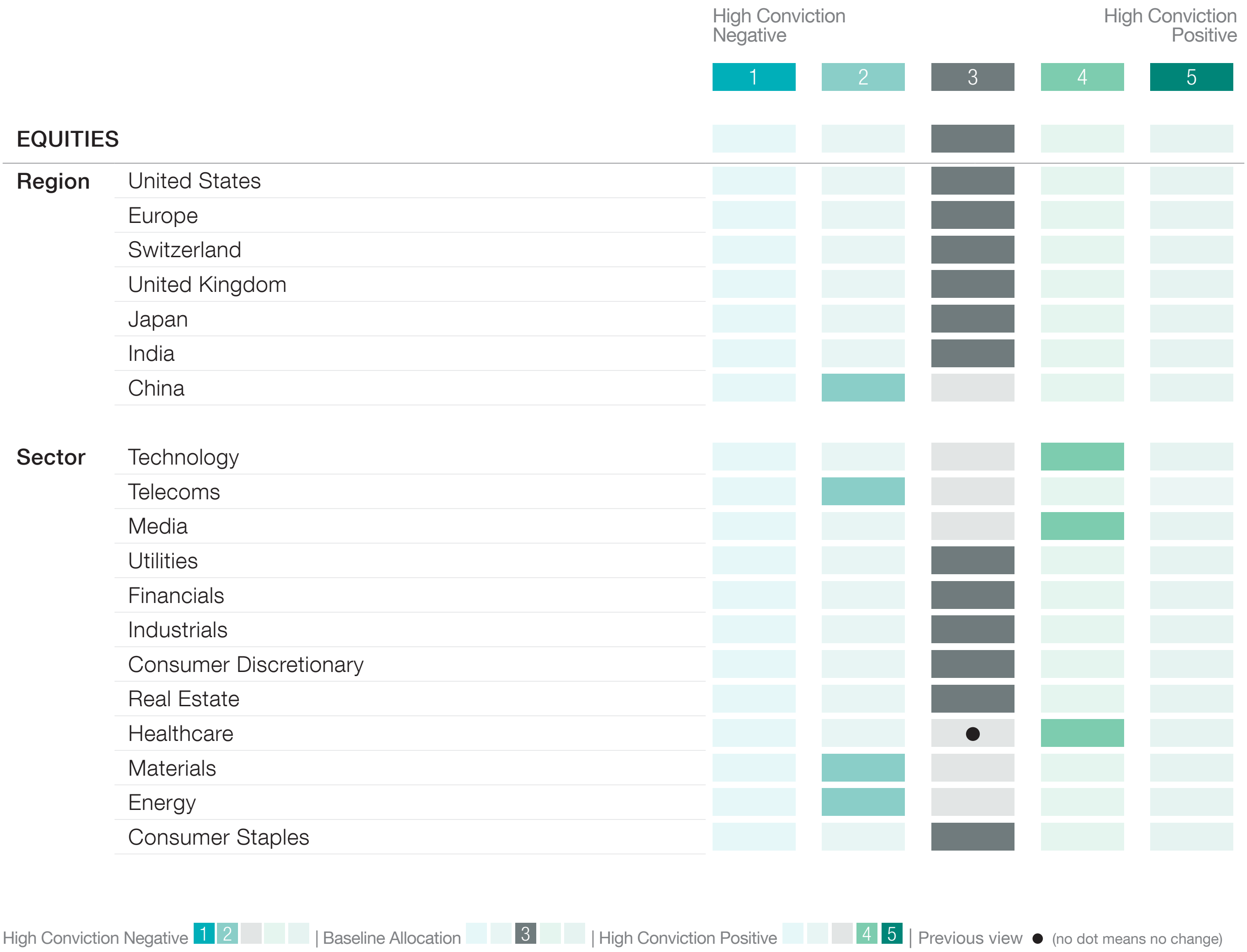
Directional views

Asset allocation: tactical views as at June 2025



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Directional views

Asset allocation: tactical views as at June 2025

	High Conviction Negative 1	2	3	4	High Conviction Positive 5
FIXED INCOME		■			
Governments		■			
Investment Grade			■		
Financial			■		
Corporates		■			
Agency MBS					■
High Yield			●	■	
Short-Dated High Yield			■		
Corporate High Yield		●	■		
Corporate Hybrids & AT1s			●	■	
Senior Loans			●	■	
Emerging Markets		■			
Emerging Markets Sovereign		■			
Emerging Markets Corporates		■			
Local Currency		■			
Convertibles			■		
CASH		■	●		
USD			■	●	
EUR		■	●		
GBP			■		
CHF		■			

High Conviction Negative 1 2 | Baseline Allocation 3 | High Conviction Positive 4 5 | Previous view ● (no dot means no change)

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Directional views

Asset allocation: tactical views as at June 2025

	1 High Conviction Negative	2	3	4	5 High Conviction Positive
HEDGE FUNDS				■	
Equity long/short			■		
Global Macro			■	●	
Credit				■	
Relative Value				■	
PRIVATE MARKETS			■		
Private Equity			■		
Private Credit				■	
Infrastructure				■	
Real Estate				■	
GOLD				■	
COMMODITIES			■		
Oil		■			
CURRENCIES					
EUR/USD				■	
USD/JPY			■		
GBP/USD				■	
USD/CHF				■	
USD/CNY			■		

High Conviction Negative 1 2 | Baseline Allocation 3 | High Conviction Positive 4 5 | Previous view ● (no dot means no change)

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Asset allocation

Equities

Based on our current US economic outlook, we believe that downward revisions to US earnings expectations should come to an end, as recession risks in the region have dissipated. The technology sector continues to support the overall earnings growth picture of the S&P 500. In Q1, US earnings significantly exceeded the initial consensus estimate of 7%, achieving 14% year-on-year growth. This progression was primarily driven by the robust performance of the US technology sector, namely the 'Magnificent 7', which delivered 27% year-on-year (EPS) growth, surpassing forecasts of 16%.

Looking ahead, a reassuring US economic environment, along with a weaker US dollar and lower energy costs, will also support corporate activity beyond just the technology sector. Additionally, upcoming tax cuts present an upside risk for earnings estimates, especially in 2026.

However, we are mindful that valuations have returned to above-post-Covid averages in the US, tempering our enthusiasm for a more positive shift in our conviction level, which remains at 3/5 for US equities.

In Europe, the weak economic environment is expected to persist, with 2% earnings growth anticipated this year, necessitating more selectivity. The aerospace & defence sector, where earnings are projected to accelerate to 20% this year, is a notable area of interest.

Risks to equities include ongoing geopolitical tensions, the unpredictability of the US administration, and potential upside risks to Treasuries given our growth forecasts and increasing deficit projections. We have maintained our 3/5 rating on equities overall with a preference for the US technology sector (4/5), global healthcare (upgraded to 4/5 vs. 3/5 previously) and defence exposures.

Fixed income

US yields rose in May, with 10-year Treasuries hitting 4.6% and the 30-year reaching 5.15% mid-month, a peak not seen since Q4 2023. The surge was driven by fears of unsustainable deficits and indebtedness, fuelled by President Trump's 'Big Beautiful Bill' and Moody's downgrade of the US's credit rating to Aa1, which raised concerns.

The Federal Reserve held rates steady, with markets now pricing in only two rate cuts for 2025, down from four expected in April. On 5 June, the European Central Bank (ECB) cut its main interest rate by 0.25%. Despite the volatility, spread compression continued from the previous month: investment grade returned 0.2%, and high yield (HY) 1.5% for May, with year-to-date gains at 3.1% and 2.7%, respectively; Treasuries are up 3.0% and emerging markets 3.2%.

With US policy pivoting to tax cuts and fiscal expansion, recession risks are fading, supporting tight HY spreads. Reflecting this, we upgraded our tactical rating on HY from 3/5 to 4/5, upgraded corporate HY to 3/5 and corporate hybrids, AT1s and senior loans to 4/5.

	USD	EUR	GBP
Duration	3.0y	3.5y	4.0y

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We highlight AT1 bonds as a standout opportunity. European banks, bolstered by stringent regulation, have built up robust capital ratios and low amounts of non-performing loans. However, AT1s are yielding 7% in USD and 5.8% in EUR, levels comparable to single-B bonds, despite their higher BB+/BBB- ratings. This yield disparity, exacerbated by rating agencies' 4–6-notch downgrades from senior ratings, appears mispriced. We have increased portfolio allocations to AT1s to capitalise on this.

Hedge funds

Recently, macro/CTA strategies have faced challenges relative to other hedge fund strategies at index level, especially in the more liquid space. 2025 has been characterised by a fast-moving and uncertain policy environment which has caused market sentiment and prices to reverse quickly. Some managers within the strategy have benefited from this and outperformed, particularly those that take a more tactical or multi-strategy approach.

However, systematic managers focusing on longer-term trend-following have experienced challenges as a result of their directional positions being whipsawed as the themes in the market change over a time frame unsuited to their holding period.

Looking ahead, the political and economic landscape is likely to remain complex, potentially continuing to challenge these strategies unless more structural, sustained themes emerge.

Private markets

Across the direct lending space, spreads have remained relatively stable after the now infamous 'Liberation Day', with new loans trading at a margin of 515 bps according to data from listed business development companies. Beyond margins, credit quality (although only for Q1) continues to show a benign credit environment with non-accruals remaining low and payment-in-kind (PIK) usage slightly flat, quarter-on-quarter. In private equity, it has been reported that the Harvard and Yale endowment funds have put a significant amount of USD-denominated private equity stakes up for sale, allegedly as a result of the White House's decision to reduce financing to some Ivy League schools. Yale seems to be about to close a sale of USD 2.5 billion at a roughly 10% discount, evidencing the continued strong momentum in secondaries.

Commodities

In early June, gold rose to levels of around USD 3,375 per oz. Gold's upward move reflected USD weakness and a modest increase in speculative positioning. Gold also gained ground as prospects of a ceasefire in Ukraine dimmed. The underlying backdrop remains highly favourable for continued gold rises, and we target a move to USD 4,000 per oz by the first quarter of 2026.

Oil prices rose in early June to levels of around USD 65/bbl in what is likely to be a short covering move. The Organization of the Petroleum Exporting Countries (OPEC) moved to increase production quotas once again, and it is now on course to unwind all of its 2.2 million bpd of production cuts in the coming months. Global inventories are likely to rise substantially as a result, and we therefore believe that the recent rally in prices is unsustainable. We think that crude can decline to levels of USD 55/bbl in the coming months.

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Currencies

In early June, the US dollar fell to its lowest level in two years. The USD's correlation to long-end yields declined considerably, reflecting rising US term premia and concerns about slowing US growth. The EUR/USD rose to levels of above 1.14, and the USD/CHF traded lower to sub-0.82.

Coming into June, we anticipate continued weakness on the greenback, as investors move to reduce long USD exposures. There are upside risks for the EUR/USD ahead of the ECB's June meeting, where it will cut rates but may signal a pause in its rate-cutting cycle. The Swiss National Bank (SNB) will move to cut its deposit rate to 0.00%, and it is likely to increase its intervention rhetoric; we maintain a constructive stance on the CHF.

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Market monitor

As at 05 June 2025

Equities World	Last Price	4W Chng	YTD Chng
MSCI Word Index (ex EM)	3889.7	5.5%	4.9%

Equities USA	Last Price	4W Chng	YTD Chng
S&P 500	5939.3	5.9%	1.0%
Dow Jones	42319.7	3.7%	-0.5%
Nasdaq 100	21547.4	8.9%	2.5%

Equities Europe	Last Price	4W Chng	YTD Chng
FTSE 100	8811.0	2.5%	7.8%
STOXX Europe 600	551.9	2.9%	8.7%
Swiss Market Index	12317.6	0.7%	6.2%

Equities Asia	Last Price	4W Chng	YTD Chng
Hang Seng	23907.0	5.5%	19.2%
MSCI India	1050.9	1.2%	2.6%
Nikkei 225	37554.5	2.0%	-5.9%
MSCI Emerging Markets	1182.7	4.0%	10.0%

Credit	Last Price	4W Chng	YTD Chng
Global High Yield Bonds	507.4	1.7%	2.9%
US High Yield bonds	1772.6	1.7%	3.0%
US Corporate bonds	3416.1	0.9%	2.6%
US Aggregate Bonds	94.5	0.3%	0.2%
European Aggregate bonds	55.2	0.1%	-0.3%
EM USD Aggregate Bonds	1637.6	0.0%	0.0%

Sovereign	Last Price	4W Chng	YTD Chng
US 10-year Treasury	4.4	9bp	-18.4bp
German 10-year Bund	2.6	5.6bp	22.6bp

Alternatives	Last Price	4W Chng	YTD Chng
S&P Commodities	21.8	3.2%	0.0%
Crude oil	63.3	7.2%	-12.0%
HFRX Equity Hedge	1226.4	0.0%	0.0%
Gold	3354.2	-2.2%	27.8%
Silver	36.2	8.7%	25.2%

Currencies	Last Price	4W Chng	YTD Chng
Dollar Index	98.7	-0.9%	-9.0%
EUR/USD	1.1	0.7%	10.5%
USD/CHF	0.8	-0.3%	-9.6%

Volatility	Last Price	4W Chng	YTD Chng
S&P 500 VIX	18.5	-25.4%	6.5%
NASDAQ VXN	21.5	-20.8%	7.8%
VSTOXX	17.7	-14.6%	4.4%
XDAX	19.2	-15.2%	22.6%

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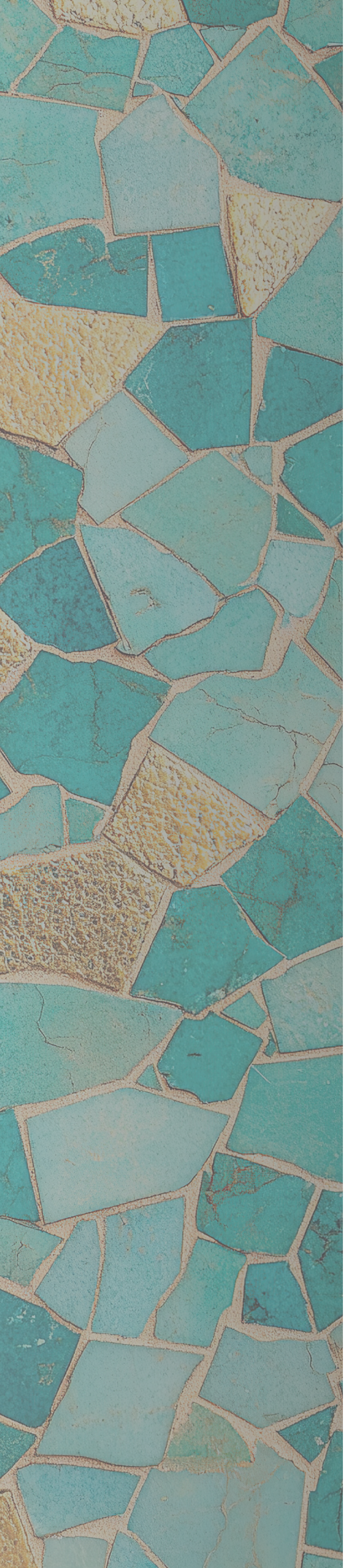

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