Syconvictions

JUNE 2025

At a glance

Our view on **equities has returned to neutral**

We have **lowered our positive view on credit**

We remain **constructive on US exceptionalism**

Message from the CIO

Most of the losses from the April sell-off triggered by "Liberation Day" have been wiped, and indices are now nearing their recent highs. The tariffs will remain in place, however. At best, they should stand at 10% minimum and could be much higher for some goods.

The confidence shock that has affected institutions and several pillars of the US economy in the United States will persist, as demonstrated by the sharp rise of the term premium on long-term rates in the US. With such poor visibility and lacking clear pointers, how can investors navigate markets that continue to deliver so many surprises?

The resilience of risk assets, and conversely, the weakness of safe haven assets, such as US rates, are proof that investors will always seek out new solutions that will protect their investments from market turmoil, particularly in the current environment, in which past certainties are systematically called into question.

Economic systems have a capacity to adapt that should not be overlooked. We do not believe in excessive doom and gloom and refuse to conclude that risk has simply increased. Our view is rather that risk will have different implications. With no rules of play and lacking a regulatory framework, it is preferable to shorten our investment horizon.

These observations corroborate our long-established investment principles: to be wary of the consensus, remain flexible and constructive, and adopt a broad diversification strategy. This approach stands in contradiction with the recent success of passive strategies and strengthens our conviction that active management has the potential to create significant value.

Pierre-Alexis Dumont
Chief Investment Officer

Market weather

EQUITIES
- European
- American
- Asian

SOVEREIGN BONDS
- European
- American

CORPORATE BONDS
- Investment Grade
- High Yield

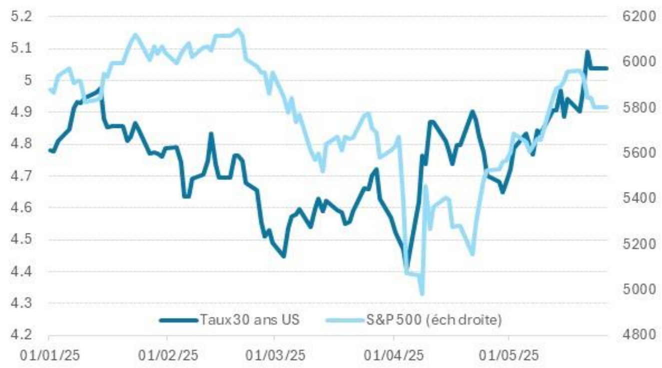
CASH

Market environment

Public debt above 120% of GDP, an annual deficit close to 7%, and an external current account deficit of 4% per year requiring constant foreign capital inflows: if this wasn't the United States, **all the seeds of a crisis would be gathered.** "American exceptionalism" has a darker side - which has now reached worrying proportions.

At the end of 2024, the US net international investment position (i.e. the difference between U.S.-owned foreign assets and foreign-owned U.S. assets.) was close to 26 trillion dollars, almost 90% of GDP. This means that the **American financial system has become more reliant on global investor appetite.**

RISING SOVEREIGN PREMIUM IN THE US AND RESILIENT EQUITY MARKETS



Source: Bloomberg, data at end May 2025.

Deepening deficits and the substantial rise of debt servicing costs (now in excess of 1000 billion dollars every year) are causing market observers to fear a "**Liz Truss moment**" - a reference to the very brief tenure of the former UK Prime Minister, who had to step down in 2022 after announcing a series of non-budgeted tax cuts that sparked a bond sell-off. What is the situation in the United States today? Despite legitimate fears of an economic slowdown, since Liberation Day on April 2nd, 30-year yields on US Treasury bonds have risen around 50 basis points, and the **curve has steepened** - a signal that markets are jittery.

Meanwhile, equity markets rebounded sharply, and at current levels, are now displaying a near-zero risk premium relative to bond yields. An unusual situation, that could be interpreted in either of two ways: equity prices are rising, or scepticism about US sovereign debt is deepening. "American exceptionalism" is well and truly under pressure.

Asset allocation strategy

After financial markets made a swift comeback, a new phase has begun – tariff negotiations amid an economic slowdown. The confidence shock is set to last. **Tariffs** will not be as high as the extreme levels announced initially but still remain significant, possibly prompting a 'wait and see attitude' and **weighing on the performance of risk assets over the short-term**.

As a result, we have returned to a neutral view on equities and have lowered our positive view on credit after the sharp drop in spreads. We shall adjust our position regularly while factoring in the state of the global economy, market forecasts, and negotiations on tariffs geopolitical issues.

On the **credit** front, we took advantage of a dynamic primary market to either **invest in new issuers or benefit from higher yields** on new issuances. At the same time, credit quality has improved as exposure to sectors likely to be impacted by high tariffs (automotive, energy) has decreased. On the **equity** side, the recent performance of US equities, combined with rather rich valuations, prompted us to **lower our overall exposure to the US market**.

We have kept a constructive view on American exceptionalism, notably innovation and technology, as a positive outcome to the tariff talks remains a possibility and the valuation premium has shrunk substantially, while maintaining a positive earnings momentum.

Key dates

2025

June 4-5
ECB meeting

3rd UN Ocean Conference
June 9-13

June 17-18
Fed meeting