MARKETING DOCUMENT

Syconvictions

JULY 2025

At a glance

The **credit market** is **resilient**

We remain **overweight European equities**

The planets are starting to align for **European small and mid-caps**

Message from the CIO

US stock markets experienced a "Magnificent 7" effect after concentrating value creation, earnings growth and unprecedented returns in 2023 and 2024. While the causes differ, the consequences are similar in Europe for defence and financial companies in 2025, as the latter concentrate most of the impressive market rally, which currently stands at 10% in Europe, but only 2% without their contribution.

This revival stems from the change of paradigm in Europe, characterised by the end of deflation - which allowed the European financial system to emerge from the doldrums, but also from Europe's political awakening triggered by President Trump's isolationism. The effects have been massive: the infrastructure stimulus plan has finally been introduced in Germany, and 'declarations of intent' on European defence have been superseded by a significant rise in budgets, recently confirmed at the NATO summit, with spending targets now set at 5% of GDP by 2040.

This is why our view on Europe is more positive today. A word of caution, however: a successful outcome will require prompt execution if the change of paradigm is to deliver on expectations. And execution capacity is often the problem in Europe. This was made clear with the European "Green Deal", the effects of which were highly diluted compared to the American "IRA", despite similar spending commitments.

Generally speaking, it is important to remember that the current environment - which is constantly shifting on account of major technological, geopolitical and economic disruptions - will concentrate returns in a limited number of market segments. A situation that is conducive to "alpha" creation for conviction-driven strategies.

Pierre-Alexis Dumont
Chief Investment Officer

Market weather

EQUITIES
- European
- American
- Asian

SOVEREIGN BONDS
- European
- American

CORPORATE BONDS
- Investment Grade
- High Yield

CASH

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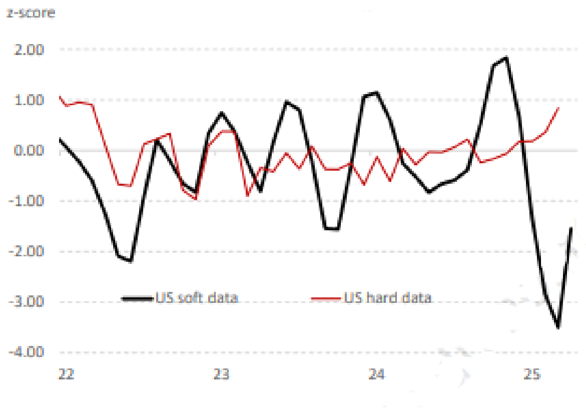
Market environment

The new political and economic governance in the United States has had a limited impact on capital markets. The same can be said of economic indicators, which are very resilient both in Europe and in the United States. Only “soft” indicators - which measure sentiment and expectations, point to worrying levels of weakness. This is a key point. Indeed, these surveys are considered to be predictive. The gap between the two types of data - the widest in 27 years - is a reflection of investor uncertainty. While hard data suggests 3 to 4% growth, the soft data points to growth between 1 and 2%. This discrepancy, as well as a possible deterioration of the economic environment, poses a threat to capital markets. It also partly explains investors’ wait-and-see attitude, which is often followed by a sharp turnaround as soon as visibility improves.

“SOFT” VS “HARD” ECONOMIC INDICATORS IN THE UNITED STATES



Sources: UBS ; Haver.

These divergences advocate greater diversification; they also call for some caution, and in this new paradigm, it would be a mistake to track forecasts based on the performances posted by various asset classes in recent years. Furthermore, this gap is not conducive to initiating major allocation or positioning plays until we are in a better position to analyse the economic environment.

Asset allocation strategy

After markets continued to rally in June, nearing their annual highs, we are increasingly vigilant. We are waiting to see how the US President will react on July 9th with countries that have not signed a trade agreement with the United States.

Equity markets are currently driven by hope. Hope that trade negotiations will go well, hope that the Fed will adjust its policy, hope that the next earnings season will get off to a strong start and beat expectations. Markets are therefore trending upwards this month but seem unable to break through a resistance level and are lacking immediate catalysts able to drive them much higher. We are keeping a close eye on these factors to ascertain whether we should raise our exposure to equities. Our geographical bias is noteworthy, however. We have maintained our European equity overweight, particularly as we fear a continued depreciation of the dollar, which could have a heavy impact on performance.

Example in June: the S&P 500 gained 5% in dollars and 1% in euros. Nonetheless, we have kept our investments in several US technology stocks and are hedging the currency risk.

On the **credit** front, the market is proving very resilient on the whole, despite some volatility in sovereign bonds. This is particularly the case for the credit rating segments within the portfolio, namely BBB Investment Grade and the upper end of the High-Yield sector. The primary market has remained particularly dynamic, and sustained investor demand is enabling spreads to continue to contract, a move that began in April.

Our view has shifted from negative to neutral on European small and mid-caps. Their growth momentum, low exposure to tariffs, and a rather intact M&A activity are reassuring. Thanks to the stimulus plan (defence and infrastructure spending) and a dovish ECB, it seems the planets are starting to align for the asset class.

Key dates this summer

2025

July 23 and 24
ECB meeting

Fed meeting
July 29 and 30

August 21 to 23
Jackson Hole Economic Policy Symposium