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Looking at the  
Second Half of 2025



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The first half of 2025 was marked by sharp policy shifts from the new U.S. administration which led to major market shifts. The U.S. Dollar lost nearly 11% in the first half of the 2025, the sharpest half-year drop since 1973, and the U.S. national debt crossed an unprecedented \$36 trillion. Despite the uncertainty surrounding trade wars & tariff concerns, the U.S. equity markets ended the first half of the year positive, following the lows of April 8th. The S&P 500 was +6.2% end of June, Q2 being the quarter of recovery. The European equity markets fared better than U.S., led by the defence stocks which had an exceptionally strong H1 2025. Emerging Market equities out-performed U.S. equities by 13.4% in the first half of the year, despite the trade concerns that were sprung sporadically.

Looking towards the second half of the year now, much rests on the direction of the trade negotiations globally, the future of U.S. exceptionalism, the consumer confidence in the developed world and the longevity of the German business optimism.







# Direction of the Trade Negotiations

## Trading Partners with an Agreement

Country	Date Announced	Tariff rate after trade agreement	Tariff rate before trade agreement
 UK	May 8	10%	25%
 Vietnam	July 2	20%	46%
 Indonesia	July 15	19%	32%
 Philippines	July 22	19%	20%
 Japan	July 23	15%	25%
 EU	July 27	15%	30%
 South Korea	July 31	15%	25%
 China*	May 12 ...talks still ongoing	30%	145%

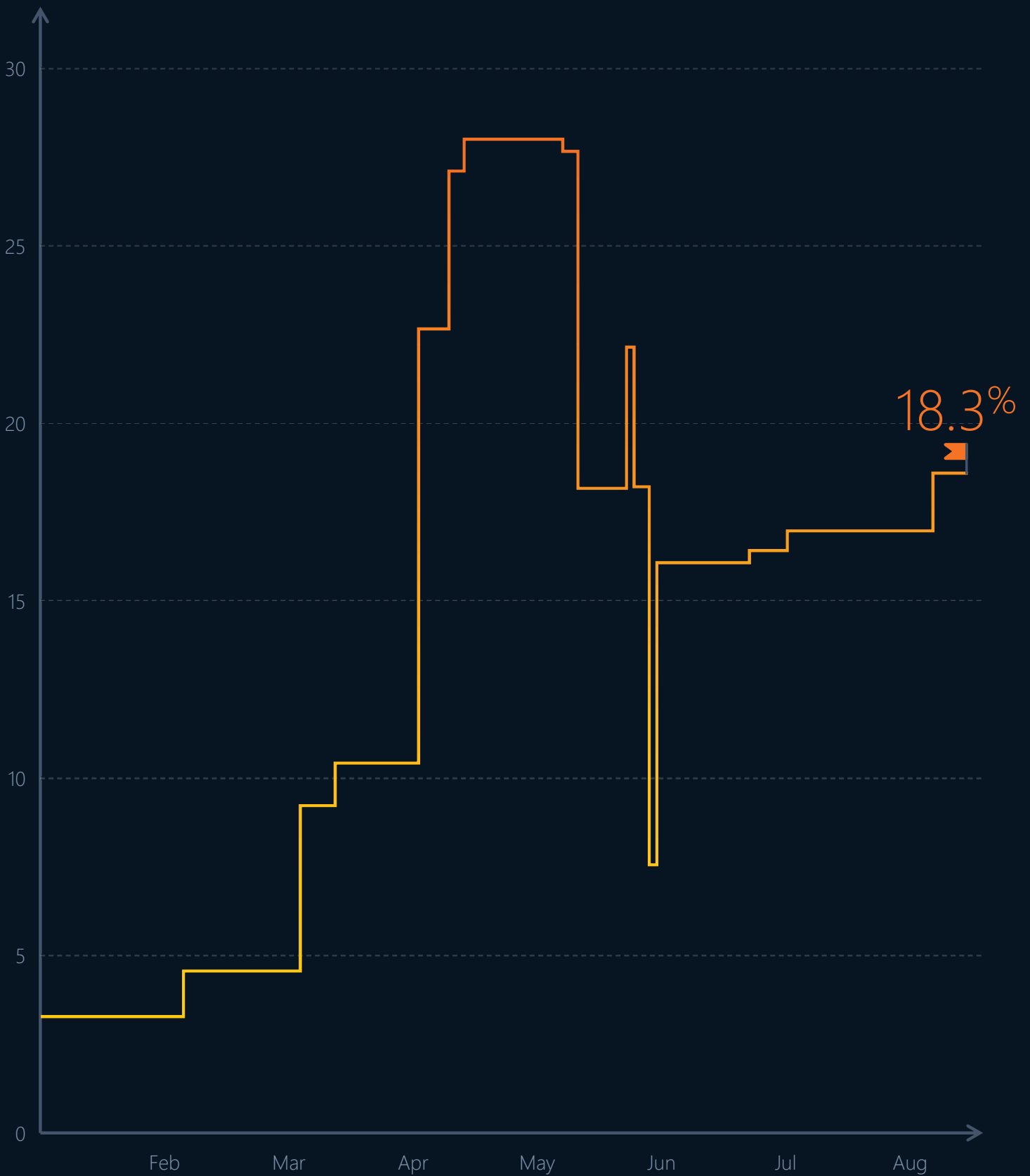
## Key Trading Partners without a deal

Country	Current threatened tariff rate
 Canada	35%
 Mexico	30%
 India	50%
 Australia	10%



# US average effective tariff rate since 1<sup>st</sup> Jan 2025

Policy as of July 31, Pre-Substitution  
Percent of goods import



Source: The Budget Lab at Yale



# Key Takeaways

- It remains to be seen whether rising tariffs will push up prices and dampen consumer confidence in the U.S.
- As more tariff agreements fall in place, the level of uncertainty should reduce in H2 2025.
- The U.S. exceptionalism may not fade in the medium-term and therefore we may expect an increased demand for U.S. assets.
- The rate cuts from the Federal Reserve may not materialize until the last quarter of 2025. A premature resignation by Federal Reserve chief Jerome Powell remains a key risk that could undermine the very foundation of the market dynamics of the U.S. Dollar.
- In Europe, the ECB has implemented 8 rate cuts since mid-2024. With inflation around ECB's target, there is not much scope for further rate cuts, making sovereign bonds unattractive. Valuations are stretched in IG & HY. Selective opportunities exist in the European AT1 space. The 15% tariffs on European countries includes pharma & semiconductor sectors, where the end markets are weakening. Industrial production, exports & PMIs are also softening.

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Global growth is projected at 3.0% for 2025 and 3.1% in 2026, an upward revision from the April 2025 World Economic Outlook. This reflects front-loading ahead of tariffs, lower effective tariff rates, better financial conditions, and fiscal expansion in some major jurisdictions.

Global inflation is expected to fall, but U.S. inflation is predicted to stay above target. Downside risks from potentially higher tariffs, elevated uncertainty, and geopolitical tensions persist.

Restoring confidence, predictability, and sustainability remains a key policy priority.

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- IMF, World Economic Outlook Update,  
July 19, 2025



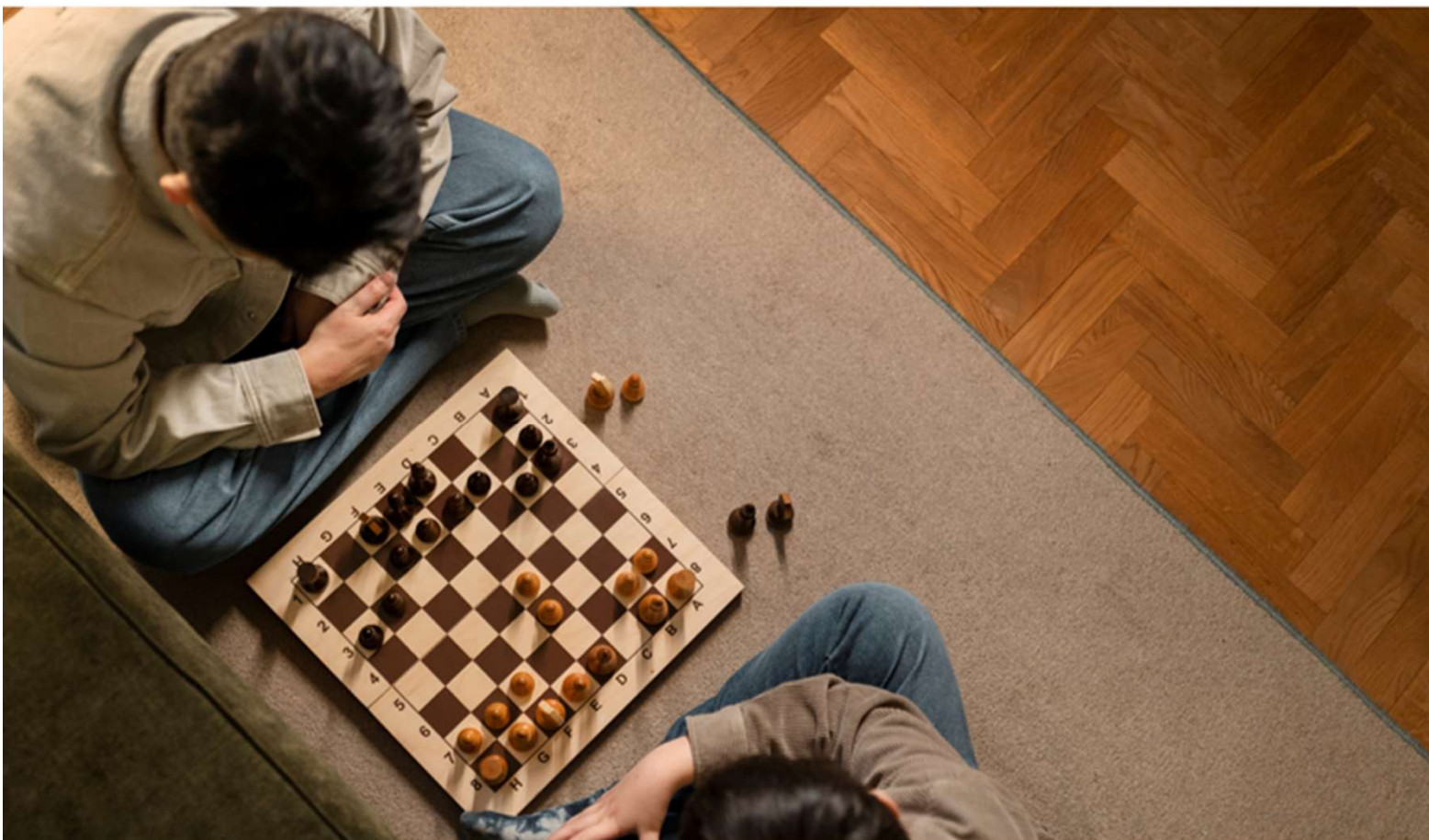
# The U.S. Earnings Season & Where Its Headed

330 companies in the S&P 500 Index have reported earnings for Q2 2025. Of these companies, 80.6% reported earnings above analyst expectations and 15.2% reported earnings below analyst expectations. In a typical quarter (since 1994), 67% of companies beat estimates and 20% miss estimates. Over the past four quarters, 76% of companies beat the estimates and 18% missed estimates.

In aggregate, companies are reporting earnings that are 8.3% above estimates, which compares to a long-term (since 1994) average surprise factor of 4.3% and the average surprise factor over the prior four quarters of 6.3%.

The estimated earnings growth rate for the S&P 500 for 25Q2 is 11.2%. If the energy sector is excluded, the growth rate improves to 13.2%.

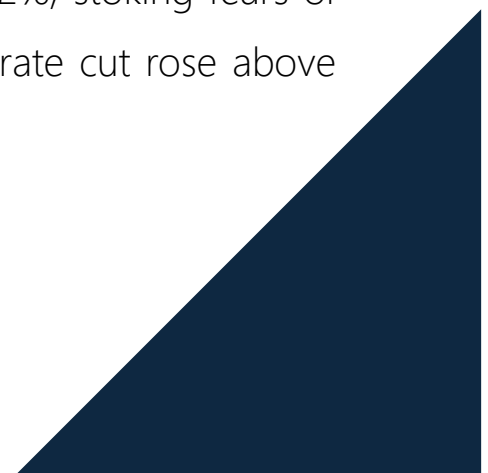
8 of the 11 sectors in the index expect to see an improvement in earnings relative to 24Q2. The communication services and information technology sectors have the highest earnings growth rates for the quarter, while the energy sector has the weakest anticipated growth compared to 24Q2.



# The U.S. Earnings Season & Where Its Headed

The U.S. equity markets have seen a steep rally in Q2 2025 following the lows of April. The U.S. budget deficit will result in a rise in the long-term interest rates. The full impact of the tariffs is still being factored in by the markets. The impact of stricter immigrations norms on wages also remains to be seen. Any negative surprises on the policy front at this stage, could result in a sharp equity markets pullback. Further, given these inflationary pressures, the Federal Reserve has been reluctant to move towards rate cuts, and spreads on U.S. corporate bonds may stay elevated.

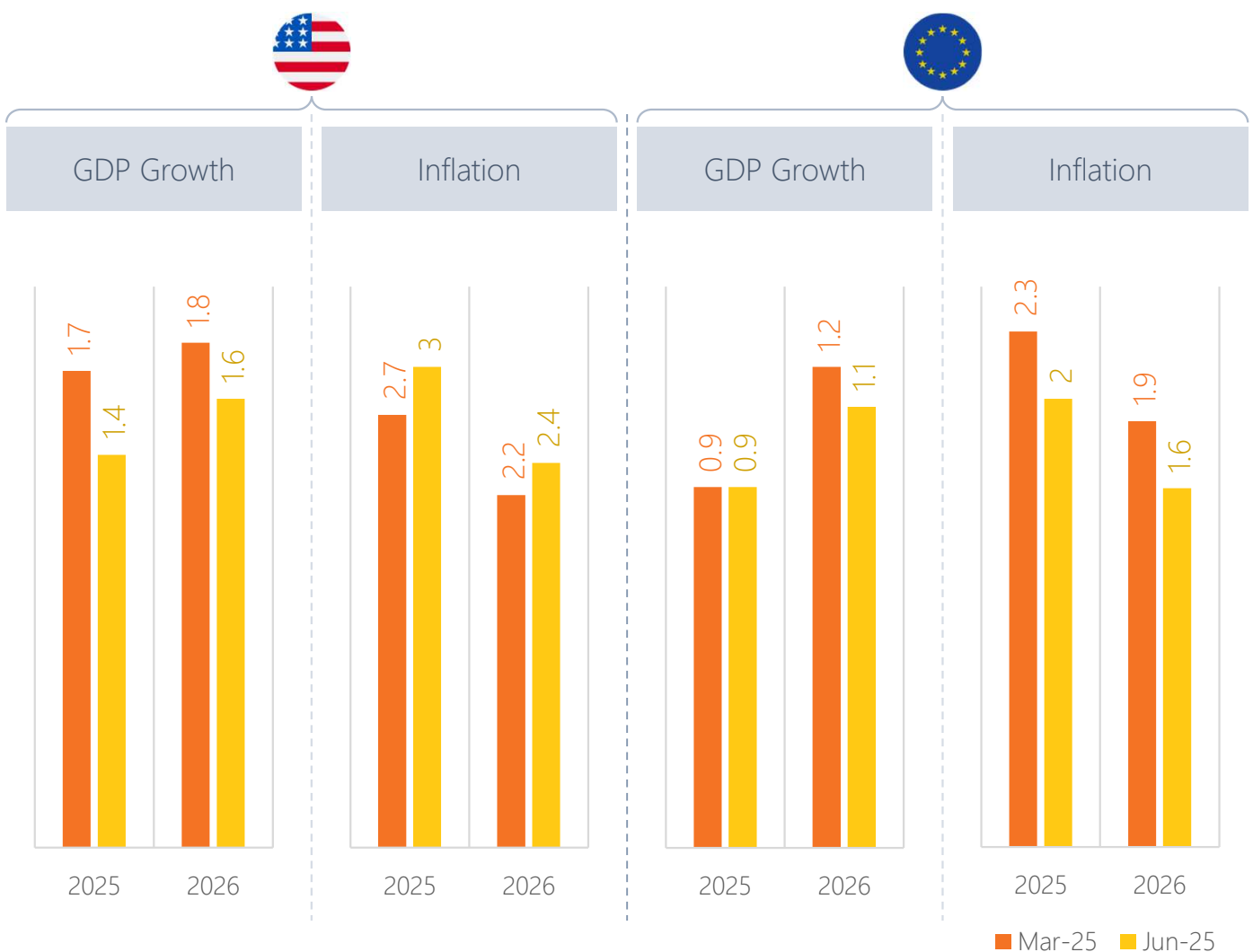
The July 2025 jobs report came in much weaker than expected, with only 73,000 new jobs added (versus estimates of 100,000+), and previous months' numbers revised sharply lower. The unemployment rate rose to 4.2%, stoking fears of a slowing economy. The odds for a Fed rate cut rose above 75% following the weak economic news.



# Will The European Markets Rally Continue?

In the first 6 months of the year, European equities have outperformed their U.S. counterparts by a healthy margin. Banks, aerospace & defense were at the forefront of this rally. The key question for the second half of the year is whether Europe can sustain this out-performance. The Eurozone shows indicators pointing towards moderate growth. The Purchasing Manager Index is moderately positive but showing signs of softening. A sustained performance for the rest of the year would require laggard sectors such as luxury, healthcare, semiconductors, to participate in the rally. How these sectors will cope with the 15% tariff impact on American exports, remains to be seen.

Both the Fed & the ECB cut 2025 & 2026 growth estimates, the ECB also cut inflation estimates



# China's Anti-Involution Drive

Excess output (especially in sectors such as Electric Vehicles, solar power, lithium batteries) was being blamed for compounding the deflationary pressures on the Chinese economy. The issue is called "involution", a term referring to a cycle of excessive competition arising from too much production capacity. Prices of silicon wafers and panels, for instance, have slumped nearly 90% since 2023, while profits in the automotive industry declined 12% in the first five months of 2025, as per Soochow Securities. This has led to the Chinese government taking several anti-involution measures. Some sectors that could get impacted by this:

1. Energy and Materials could see some consolidation,
2. Smaller players in the electric vehicles segment could phase out to make room for growth for the larger players,
3. Large battery manufacturers could benefit from consolidation in the industry,
4. Chinese banks & lenders could enjoy better margins



# Where Are Oil Prices Headed?

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The average price of oil in Q2 2025 (\$63.68) was 21% below the average price for oil in Q2 2024 (\$80.66). The tailwinds from trade deal announcements will make markets optimistic about the prospects of global trade, which is directly linked to oil prices. Having said that, demand continues to be soft, and supply is set to increase, with OPEC boosting crude production by 411,000 barrels per day in June 2025. Several OPEC members are expected to further boost production over the next few years, as they invest in new production facilities. A sustained decline in oil prices could help in keeping inflation under check.

Oil prices fell further in the first week of August after OPEC+'s decision to increase production by 547,000 barrels per day in September.



# Navigating H2 2025

Asset Class	Region	Recommendation	Rationale
Fixed Income	US	Neutral	Bond yields could continue to remain volatile. Inflation swaps are pricing steady increase in inflation over the next 12 months.
			Housing markets have started to weaken.
			Continuous jobless claims have been steadily inching higher indicating creeping weakness in Job markets.
			Manufacturing and Non-Manufacturing PMIs remain weak
Eurozone	Neutral	Neutral	Not much scope for further rate cuts, making sovereign bonds unattractive. Valuations stretched in IG & HY. Selective opportunities exist in the European AT1 space.
			UK
Emerging Markets		Preferred	Emerging Market Investment Grade USD denominated bonds could be more attractive than local currency bonds
Equities	Developed Markets	Neutral	U.S. markets could be disappointed with lack of rate cuts and increase in inflation, despite good earnings season. German business sentiment is riding the wave of optimism. Whether the government investments will materially boost innovation or new technologies is yet to be seen.
	Emerging Markets	Neutral	While much depends on how the trade negotiations pan out, sluggish growth in the developed markets may affect emerging market equities
Precious Metals		Strongly Preferred	While gold may be over-bought, there are opportunities in the ongoing silver rally
Crude Oil		Neutral	Surplus supply in the short term
Copper		Preferred	Tariff-induced market adjustments and the unwinding of inventory build-up may exert price pressure in the near term. Prices may stabilize by Q4 2025
Alternatives		Strongly Preferred	Private market assets such as good private credit, private equity & infrastructure debt products could add stability to the portfolio





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