

MID-YEAR 2025

INVESTMENT VIEW



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Financial markets in 2025 have been shaped by a complex interplay of factors, including the evolving tariff regime implemented by President Trump, rising geopolitical tensions and shifting central bank policies.

The impacts have rippled across equity, fixed income, and multi-asset strategies, creating pockets of uncertainty and opportunity. As we look ahead to the second half of the year, much depends on the trajectory of trade negotiations, fiscal responses, and global growth dynamics.

In this context, our portfolio managers share their market insights to highlight the prominent themes, risks and opportunities for the remainder of the year. Their insights underscore the value of varied perspectives and independent thought. We do not subscribe to a single house view. Instead, we champion the power of active management, where nimble, thoughtful investment decisions are critical in navigating today's rapidly evolving environment.

INVESTMENT THEMES FOR H2

1. TARIFF UNCERTAINTY: A GLOBAL REPRICING OF RISK

The return of US-led protectionism has accelerated volatility across developed and emerging markets. Tariffs have acted as a tax on both consumers and corporates, with potential stagflationary consequences – particularly in the US, where consumer sentiment remains pivotal. European and Asian policymakers have responded with both fiscal stimulus and diplomatic coordination, while equity and fixed income markets have adjusted to a more fragmented global trading system.

For equity investors, the prospect of prolonged trade disruption has driven increased interest in companies with localised supply chains, pricing power, or defensive characteristics. Within fixed income, credit selection and regional divergence are critical, as investors weigh the balance of inflation risks versus central bank responsiveness.



2. STAGFLATION RISKS: PRICING IN THE HARDER PATH

Several managers highlighted the risk of a stagflationary backdrop — low growth combined with renewed inflation pressure — as one of their key macro scenarios for H2. Supply chain disruptions from tariffs, elevated energy price sensitivity, and diverging monetary policy are contributing factors. This environment complicates policymaking: the Federal Reserve (Fed) faces diminished room to cut rates, while the European Central Bank (ECB) appears more open to further easing amid softer European data.

In this context, there is increased demand for quality credit, defensive equity sectors, and real assets that can preserve value in a volatile price environment. Convertible bonds, high-quality European equities, and global fixed income positions with inflation resilience are gaining favour.

3. REGIONAL ROTATION: EUROPE STEPS UP

One of the clearest thematic shifts has been the improving relative case for European assets. Coordinated political support for Ukraine and measured fiscal expansion, focused on infrastructure, innovation, and healthcare, are increasing Europe's credibility as a geopolitical and economic counterweight to the US. The result: greater investor willingness to revisit European equity allocations and a rotation away from perceived US concentration risk.

This trend has also found footing in fixed income, where the ECB's potential for deeper rate cuts and lower inflation expectations are providing a constructive backdrop for European bonds.

4. SELECTIVE OPPORTUNITY AMID DISPERSION

Active management has proven essential as markets become increasingly idiosyncratic. Within equities, dispersion between and within sectors is widening. US cyclicals may benefit from a reversal in tariff policy, while AI-linked infrastructure plays remain sensitive to shifting capex trends. Conversely, traditional defensives, such as pharmaceuticals and staples, are being tested by both policy uncertainty and margin pressure.

In credit markets, positioning has shifted toward higher quality and greater liquidity. Several managers highlighted attractive bottom-up opportunities in emerging markets, convertibles, and European mid-cap credit, where valuations may already price in significant bad news.

5. POLICY DIVERGENCE & CURRENCY VOLATILITY

The divergence between central banks, notably between the Fed and the ECB, has triggered currency volatility and fresh demand for macro flexibility in portfolios. Investors are increasingly aware of the risk that hedging costs and unhedged exposure may behave unpredictably, reinforcing the importance of dynamic risk management.



POSITIONING INTO H2 2025

EQUITIES



US CYCLICALS & DEFENSIVE SELECTIVITY

Paul Middleton is positioning for potential tariff reversals, seeing upside in US cyclicals if policy pressure forces a pivot. Conversely, caution is warranted in discretionary categories and US pharmaceuticals, where policy risk is high. The Global Equities team remains constructive on select defensives, which are better positioned to absorb tariff cost shocks.

AI INNOVATION

The outlook for AI infrastructure remains supportive, but Paul flags valuation risk and capex sensitivity. Nvidia and data centre operators remain in the global equity portfolios but are actively monitored. Exposure is concentrated in firms with durable free cash flow and pricing power.



EUROPE OVER US

Hywel Franklin notes a renewed case for European equities, driven by fiscal tailwinds and improving policy credibility. Exposure is tilted toward beneficiaries of domestic investment, such as infrastructure and healthcare names, and companies well positioned for diversification away from US-centric supply chains.



SWITZERLAND: RESILIENCE THROUGH AGILITY

Daniele Scilingo is applying this same European lens but through a Swiss perspective, focusing on agile, multi-local companies with the flexibility to navigate global trade frictions. Market sell-offs are viewed as potential entry points into defensive growth and dividend aristocrats. As rate expectations soften, the Swiss Equities team see renewed opportunity in high-quality Swiss names, particularly those driving innovation-led productivity gains.





POSITIONING INTO H2 2025

FIXED INCOME



BALANCING RISKS AMID POLICY DIVERGENCE

Al Cattermole highlights escalating trade tensions and geopolitical risks as key downside threats, though he believes the worst of tariff hikes may be behind us. Supply chain disruptions persist, creating inflationary pressures that could prove more persistent than markets expect. While a severe shock such as a China-Taiwan conflict remains low probability, its impact would be profound.



Fatima Luis points to scenarios that could support a relief rally, including tariff fears proving exaggerated and fiscal stimulus boosting growth. However, risks remain in private credit markets, with rising defaults a concern should economic conditions worsen. Policy divergence among central banks may also increase currency volatility and create opportunities in bond markets, particularly in Europe, where ECB rate cuts could spur outperformance.



EM DEBT: NAVIGATING COMMODITY & MACRO RISKS

Daniel Moreno highlights macro risks tied to slowing US growth and sustained low oil prices – risks for sovereign exporters and oil & gas corporates. Conversely, lower oil benefits importers in Asia, where inflation is subdued. He notes attractive valuations, idiosyncratic opportunities, and lighter, cleaner positioning after recent outflows. Baseline default projections remain benign for sovereigns and corporates.



CONVERTIBLE BONDS: OPPORTUNITY IN UNCERTAIN TIMES

Nicolas Crémieux expects tariffs to fuel inflation and depress growth, raising stagflation risks and complicating Fed policy. Yet, the base case remains expansionary due to fiscal stimulus in Europe, Chinese government measures to stimulate domestic demand, and long-term growth driven by global AI adoption. Despite volatility, Nicolas believes convertibles look attractive relative to other asset classes, with a robust issuance pipeline expected.





POSITIONING INTO H2 2025

ASSET ALLOCATION



IMPROVING SENTIMENT, SELECTIVE EXPOSURE

Despite economic improvements, driven by the US/China trade truce and ongoing negotiations with Europe, Pierre Pinel notes that the geopolitical environment remains highly uncertain, evolving in line with statements from the US administration. Nevertheless, inflationary pressures coming from tariff increases and the growth slowdown should be limited. His team do not expect recession. Instead, they expect future trade deals to improve consumer and business sentiment, which should prove supportive for risk assets.

As such, future market corrections will create opportunities to increase risk asset exposures. European small & mid-caps should benefit from their domestic bias, with European fiscal easing and US “revenge tax”. The Swiss dividend thematic should benefit from negative yields on cash and Swiss franc bonds, as Pinel expects the Swiss National Bank to lower its policy rate into negative territory. Finally, the team remain exposed to corporate bonds and will look to take advantage of any new spike in credit spreads to increase positioning.

Looking ahead: Navigating uncertainty with independent thought

As we move into the second half of 2025, the financial markets remain in flux. Multiple scenarios are plausible, from tariff relief and growth recovery to stagflation or renewed volatility.

But while uncertainties persist, there is cause for optimism. Fiscal stimulus in Europe, ongoing innovation in technology, and idiosyncratic opportunities in emerging markets and credit markets provide fertile ground for selective investment. Equally, a disciplined focus on quality, valuation, and risk management remains paramount.

This environment reinforces the importance of independent thought and active management. Our investment teams draw on their deep sector knowledge to identify opportunities and mitigate risks tailored to their specific strategies. This diversity of perspective is our strength, enabling us to adapt quickly, exploit dislocations, and protect client capital.



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