

# Optimal Income Strategies

## Relief, Rebound, Repricing: A Fragile Calm

- Trade tensions ease, but uncertainty lingers beneath the surface
- US macro rebounds modestly — Yet headline growth flattered
- Europe stabilises but stays subdued, China surprises on resilience

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### What's happening?

Tariffs continue to play a major role in shaping the global economic outlook. In the U.S., they've already had a visible impact on GDP. A rush to import goods before tariffs took effect led to a sharp surge in imports — nearly 50% annualized — which subtracted about 5.5 percentage points from headline growth. This distortion should reverse next quarter, boosting GDP mechanically, even as underlying demand slows — a trend we expect to persist through the second half of 2025.

In the U.S., unconventional trade and industrial policies are expected to weigh on activity in H2 2025, though the exact impact is uncertain. We anticipate a mild recession, with GDP growth of 1.2% in 2025 and just 0.5% in 2026 — both below consensus.

In the Eurozone, the recent easing in U.S.-China trade tensions could bring some upside, but we keep our baseline unchanged. We expect modest growth: 0.7% in 2025 and 0.5% in 2026, including a small recession in H2 2025. These forecasts are well below those of the European Commission and the Bloomberg consensus.

In China, the U.S. shift away from broad-based tariffs has been a positive surprise. We expect a more targeted approach — similar to the Phase One agreement under Trump — instead of blanket trade restrictions.

Emerging markets remain exposed to the uncertainty created by U.S. trade policy. Many will need to rely more heavily on fiscal and monetary tools, especially those already facing domestic economic challenges.

As a result, we expect most developed market central banks to move toward easier policy. The Fed is likely to begin cutting rates in September, with a year-end target of 3.75%, falling to 3.00% by Q2 2026. The ECB should lower rates to 1% by year-end. The Bank of England may deliver two cuts this year and two next year, bringing the rate to 3.25% by end-2026. The Bank of Japan is expected to hike once more this year, reaching 0.75%.

**Positioning & Performance :**

	GLOBAL OPTIMAL STRATEGY			OPTIMAL STRATEGY			DEFENSIVE OPTIMAL STRATEGY		
	Dec-24	Apr-25	May-25	Dec-24	Apr-25	May-25	Dec-24	Apr-25	May-25
<b>Net Equity</b>	<b>87,9%</b>	<b>65,4%</b>	<b>64,3%</b>	<b>76,3%</b>	<b>66,8%</b>	<b>60,7%</b>	<b>34,6%</b>	<b>24,4%</b>	<b>40,0%</b>
Equities	79,7%	66,4%	71,2%	72,9%	64,3%	65,9%	37,0%	20,7%	24,6%
Equities derivatives	13,9%	0,0%	1,8%	5,2%	2,5%	1,2%	-2,4%	3,7%	15,4%
Risk Mitigation Strategies	-5,7%	-1,0%	-8,7%	-1,8%	0,0%	-6,4%	0,0%	0,0%	0,0%
<b>Fixed Income</b>	<b>5,0%</b>	<b>10,6%</b>	<b>11,7%</b>	<b>23,6%</b>	<b>24,9%</b>	<b>25,1%</b>	<b>62,9%</b>	<b>20,8%</b>	<b>28,1%</b>
Govies	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,2%	7,7%	2,3%
Bond Derivatives	45,0%	28,5%	27,6%	27,4%	22,2%	21,5%	10,4%	37,7%	27,5%
High Yield Credit	1,0%	2,1%	2,1%	5,6%	5,4%	4,7%	16,3%	7,6%	19,0%
Investment Grade	3,9%	8,4%	9,5%	17,6%	19,1%	20,0%	46,0%	5,1%	6,4%
Emerging Debt	0,1%	0,1%	0,1%	0,3%	0,3%	0,3%	0,5%	0,4%	0,5%
<b>Diversification</b>	<b>11,6%</b>	<b>7,9%</b>	<b>8,7%</b>	<b>2,2%</b>	<b>2,1%</b>	<b>2,0%</b>	<b>5,9%</b>	<b>8,8%</b>	<b>8,9%</b>
<b>Cash &amp; Money Market</b>	<b>-4,4%</b>	<b>16,0%</b>	<b>15,2%</b>	<b>-1,9%</b>	<b>6,3%</b>	<b>12,2%</b>	<b>-3,4%</b>	<b>46,0%</b>	<b>22,9%</b>

In May, amid easing market tensions and a more balanced risk-reward backdrop, we adjusted our portfolio to reflect a cautiously constructive outlook. While policy unpredictability—particularly out of Washington—remains high, improving sentiment and positioning data led us to slightly re-risk our portfolios. We maintain global equity exposure in line with long-term strategic targets, though remaining selective.

Within equities, we continue to underweight U.S. small caps, which remain particularly sensitive to domestic economic uncertainty. Persistent inflation, tight monetary conditions, and the lagging impact of tariffs leave small caps especially exposed, in our view. In contrast, we see more resilient fundamentals and better relative value in European equities—particularly German mid-caps, which benefit from attractive valuations and are poised to gain from expected fiscal support, notably in infrastructure and defence.

We also added exposure to the Nasdaq, reflecting our conviction in the ongoing strength of large-cap U.S. technology companies. Investment momentum in AI, automation, and cloud infrastructure remains strong, and we see these firms as relative winners in a low-growth, policy-fragmented world.

On the fixed income side, we maintain a long duration bias, with a clear preference for German Bunds. Bunds continue to serve as our core defensive asset, supported by Germany's robust fiscal profile and greater monetary flexibility from the ECB. In contrast, U.S. Treasuries face mounting fiscal sustainability concerns, highlighted by recent rating actions and a more constrained Federal Reserve, which appears reluctant to cut rates without clearer signs of labour market weakness.

Finally, from a diversification standpoint, we retain our constructive view on commodities, with a continued focus on gold and silver as hedges against macro instability and geopolitical uncertainty.

## Outlook

The political noise coming out of Washington continues to drown out clear policy signals. While headlines focus on dramatic statements, real guidance on fiscal direction, trade policy, and inflation management remains elusive. This level of uncertainty is now arguably higher than at any point since President Trump's election, creating a particularly challenging environment for investors.

Despite this, financial markets have staged a strong recovery, helped by backpedaling from policymakers and hopes that worst-case scenarios might still be avoided. Risk appetite has returned quickly, even as the underlying policy and economic signals remain mixed. Whether this reflects confidence or simply fear of missing out is debatable—but the shift in sentiment is evident. The AAll bull-bear index, for example, flipped into positive territory for the first time since January after a record streak of bearish readings, highlighting a rapid turnaround in investor positioning.

The U.S. economy continues to show resilience. Hard data—particularly labour market strength and steady retail sales—suggests stable underlying activity. However, much of this may have been front-loaded ahead of anticipated tariff changes. As this temporary boost fades, a moderation in growth appears likely. Meanwhile, soft survey data—especially from small businesses—remains weak and historically linked to employment trends. Notably, the gap between soft and hard data has narrowed somewhat over the past month.

Inflation remains sticky, and despite political pressure, the Federal Reserve has little room to cut rates preemptively. The tariff shift has yet to fully materialize in price data, leaving the Fed cautious, even as signs of demand fatigue emerge. The University of Michigan's consumer survey points to unanchored short-term inflation expectations, complicating the Fed's position further.

Elsewhere, financial signals are sending more mixed messages. The U.S. dollar, like oil prices, has failed to fully recover from April's turbulence—potentially reflecting growing concern over U.S. fiscal sustainability and declining global demand for U.S. assets. Long-end Treasury yields have risen notably, steepening the curve and raising questions about the durability of the equity rally. The rise in term premium—while still moderate by historical standards—suggests investors are demanding more compensation for holding long-dated U.S. debt.

This repricing is not limited to the U.S. In Japan, long-end yields have moved sharply higher, partly driven by waning demand from domestic insurers. Similarly, in the UK, gilt yields have shifted in tandem. The growing pressure on global duration assets could begin to erode the relative attractiveness of equities, especially if U.S. yields approach levels that historically marked a “danger zone” for risk assets. We're not there yet—but we are getting close.

German Bunds remain one of the few safe havens left. With Germany's solid fiscal footing and the ECB expected to retain an easing bias, Bunds offer a more stable alternative—though they lack the market depth of Treasuries. This asymmetry in the global bond market highlights the challenges of navigating a world where the traditional safe haven, the U.S. Treasury market, is under increasing scrutiny.

In short, while markets have rebounded strongly, underlying macro risks have not gone away. Uncertainty over U.S. fiscal and trade policy remains high, inflation is proving sticky, and key asset classes—from the dollar to long bonds—are still adjusting to the new reality. As the global cycle matures, the resilience of the U.S. economy is impressive, but may not be enough to fully insulate markets from the shifting tide beneath.

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