ACT MA People & Planet
US Equities eye records while Europe outpaces on trade pact

- Resilient US market supported by robust corporate earnings drives confidence
- Technology and Industrial themes remain the strongest driver of performance
- ESG funds see European inflows while U.S. outflows persist in Q2 2025

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What's happening?

As we move into the second half of the year, the landscape suggests a period of unwinding following the surge in US import demand earlier, which has now been pulled forward. This reversal poses a potential headwind for global growth and adds to the ongoing uncertainty surrounding trade tariffs for most US trading partners. The US government, under President Trump, has viewed tariffs as a crucial source of revenue, and some recent measures appear unrelated to trade disputes, indicating that higher tariffs may persist despite implementation uncertainties.

In the US, the surge in imports during the first half of the year, driven by looming tariff deadlines, raises concerns of a potential payback in the latter half. Consequently, GDP growth is now forecasted to fall below trend at 1.2% next year and just 0.5% in 2026.

In the Eurozone, forward-looking port data from the IMF reveal a clear message: economic weakness is on the horizon, with port activity down 7% at the start of July compared to the previous year. This aligns with our cautious outlook for the region, which may flirt with recession in the coming months.

China's exports have been buoyed by front-loading demand from the US since late 2024, supported also by transshipment to ASEAN regions and the EU. However, with Trump increasingly targeting transshipment routes with heightened tariffs, China's export prospects face mounting headwinds in the months ahead.

Lastly, shifts in US trade policy are prompting most developed central banks to adopt a more easing-oriented stance. We anticipate the Federal Reserve will implement two rate cuts this year—one in October and another in December—bringing the policy rate down to 4.0%. The ECB is expected to cut once in December, lowering rates to 1.75%, while the Bank of England is projected to reduce its rate to 3.75% by year-end, broadly in line with market expectations.

Portfolio positioning and performance

ACT MA PEOPLE & PLANET	Dec-24	Jun-25	Jul-25
Net Equity	*69,3%*	*65,0%*	67,1%
Equities	*69,3%*	65,0%	67,1%
Equities derivatives	*0,0%*	0,0%	0,0%
Risk Mitigation Strategies	***0,0%***	**0,0%**	**0,0%**
Fixed Income	***26,5%***	**29,4%**	**27,9%**
Govies	*6,9%*	9,0%	9,0%
Bond Derivatives	*16,8%*	8,0%	7,6%
High Yield Credit	*1,5%*	1,4%	1,2%
Investment Grade	*16,5%*	17,3%	15,9%
Emerging Debt	*1,5%*	1,7%	1,7%
Diversification	***0,0%***	**0,0%**	**0,0%**
Cash & Money Market	***4,1%***	**5,6%**	**5,0%**

Equity markets delivered positive returns in July, supported by strength in technology and industrial themes. “Information Technology” remained a key driver of performance, with resilient trends across semiconductors, software, and automation-related names. “Industrials” also contributed meaningfully, underpinned by strong earnings and continued momentum in infrastructure and logistics. The “Healthcare” theme regained traction, marking its third consecutive month of positive contribution, while “Financials” provided steady support amid stable rate expectations.

However, the equity rebound was not uniform. “Consumer Discretionary” and “Materials” posted negative contributions, reflecting weaker sentiment in cyclical segments. “Utilities” also lagged slightly, though the impact was marginal. Despite this dispersion, the equity allocation contributed +1.20% to total returns, driven primarily by the portfolio’s overweight in high-conviction secular growth areas.

On the macro side, the most notable drag came from currency effects. Despite a modest positive contribution from cash, active forex hedging weighed heavily on performance, detracting nearly one percentage point overall. This marks a reversal from June, when hedging had supported returns. Cash & equivalents as a whole subtracted -0.92%, mostly due to the hedging overlay rather than cash positioning itself.

Fixed income remained stable throughout the month. Credit segments, both investment grade and high yield, showed slight positive contributions, with corporate IG adding +0.16%. Government and inflation-linked bonds were broadly neutral. Overall, fixed income added +0.17% to portfolio performance, aligning with a risk-balanced stance and moderate duration exposure.

In July, we maintained our structural equity overweight while keeping fixed income exposures balanced across credit and sovereigns. The tactical asset allocation sleeve remained inactive, aside from a minor adjustment in fixed income overlays. While forex effects proved costly, core equity convictions continued to deliver, helping the portfolio post a +0.40% return over the period..

Focus stock of the month:

prysmian : Prysmian S.p.A. is a global leader in energy and telecom cable systems, headquartered in Milan, Italy. The company operates in over 50 countries and is at the core of enabling energy transition and digital infrastructure through its advanced cable technologies for power grids, offshore wind farms, and fibre-optic networks.

In July, Prysmian delivered a strong return of +16.7%, contributing +0.11% to portfolio performance. This outperformance was supported by strong demand for submarine cable systems and a large €1.9bn contract for the Biscay Gulf interconnection project signed in late June, positioning the group as a key beneficiary of Europe's energy transition and grid expansion efforts.

Prysmian makes a meaningful contribution to multiple SDGs, notably:

7.1: Ensure universal access to affordable, reliable and modern energy services by developing next-generation submarine and terrestrial cable infrastructure to connect renewable energy sources to demand centres.

9.1: Develop quality, reliable, sustainable and resilient infrastructure through its support for robust electricity and broadband systems in both developed and emerging markets.

13.2: Integrate climate change measures into policies and planning by enabling countries to meet their net-zero goals via high-voltage technologies and offshore wind connectivity.

Prysmian's cables power some of the world's most ambitious offshore wind farms, from the North Sea to the U.S. East Coast. The firm is also a crucial partner in 5G and broadband deployment, particularly in underserved rural areas. In addition to its strategic industrial positioning, Prysmian is committed to carbon neutrality by 2035 across Scope 1 and 2 emissions, and has aligned its targets with the Science-Based Targets initiative (SBTi), further embedding sustainability in its operations.

Outlook

US exceptionalism is back as US equities continue to grind higher and outpace other major equity markets in July. This momentum stems from a supportive market framework and a remarkably resilient US economy. Markets seem to have become somewhat immune to trade risks, banking on incremental deal-making even amid tough rhetoric. US corporate earnings have been strong overall, further boosting confidence. In contrast, Europe's earnings season started on a more mixed note. Despite heightened trade tensions and tariff increases under Trump's administration, the expected damage to corporate earnings has yet to materialize.

After falling from its Rose Garden high, trade policy uncertainty—measured, for example, by the Bloomberg Economics Trade Policy Uncertainty Index—increased again in July as Trump ramped up pressure on major trading partners to secure favourable deals before the August 1 tariff cliff. Unlike previous episodes of rising uncertainty that triggered market sell-offs, US equities remained resilient, with both the S&P 500 and Nasdaq reaching new record highs—raising concerns about investor complacency. Late July brought relief as Japan and Europe sealed trade agreements, with tariffs set at 15%, a considerable hike but significantly lower than the previously threatened rates ranging from 25% to 50%. Equities responded swiftly, with US stock indices rallying to fresh highs and sentiment indicators reaching extreme optimism levels.

However, a deeper look raises questions about the durability of this optimism. While these new trade deals—less draconian than feared—represent a substantive increase in the effective tariff rate, they still impose significant headwinds. For instance, tariffs on automobiles in Japan and Europe have dropped from potential levels above 25% to 15%, and countries have committed to substantial spending plans in the US. Nevertheless, the real-world impact of punitive tariffs on imports from key trading partners remains a significant obstacle for global trade and corporate margins. What initially appeared as market relief may, in fact, be investors clinging to the lesser of two evils rather than signalling a genuine improvement in trade fundamentals.

On the fixed income front, recent weeks have seen a notable reconstitution of the term premium across major bond markets, with the long end of sovereign yield curves rising. This dynamic has been most evident in Japan, where upward pressure on long-term yields signals a fundamental reshaping of market expectations. Rising term premiums reflect governments' need to compensate investors for holding increased long-term debt issued to finance growing deficits. Contributing factors include policy uncertainty, geopolitical instability, and diminished central bank intervention, which have all heightened market sensitivity. Interestingly, these movements in term premia are unfolding even as inflation expectations remain anchored; break-evens have shown little sign of de-anchoring despite fiscal largesse and high effective tariffs, suggesting that market participants still trust central bank credibility and view current price pressures as transitory.

On the global ESG front, global ESG funds attracted $4.9 billion in the second quarter of 2025, according to the latest statistics from Morningstar. This represents a notable rebound from the $11.8 billion in net redemptions recorded in the first quarter, amid global disenchantment with ESG. European investors played a key role in this recovery, injecting a net total of $8.6 billion into ESG funds over the last three months, after redeeming $7.3 billion in the prior quarter. Across the Atlantic, the rejection of ESG funds remains palpable. US investors withdrew capital from this market segment for the eleventh consecutive quarter, with net outflows amounting to $5.7 billion.

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