BANQUE
ERIC STURDZA

QUARTERLY OUTLOOK
3RD QUARTER 2025

CONTENT

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1. EDITORIAL
THE WORST IS NEVER CERTAIN...

Was it for being constantly accused to chicken out? President Donald Trump had finally chosen to strike 3 Iranian military targets well before the end of the 2-week period he had given himself. The TACO trade (Trump always chickens out)*, the term investors coined to refer to the US President's frequent backpedaling on various issues, may well have led to a major geopolitical act.

And yet, since the sudden acceleration of conflicts in the Middle East, the markets have seemed surprisingly resilient. It is true that oil gained 15% when Israel struck Iran, but equity indices reacted very little, while the volatility index remained cautiously around the 20 level: this is not complete serenity, but it is a far cry from the stress levels reached beginning of April...

This curious divergence can be interpreted in several ways:

- Market participants expect a quick resolve to the crisis,
- They see the situation getting bogged down, with little impact on the Western economies,
- It may also be that the markets are simply over-optimistic and are not assessing the situation and 'pricing' it accurately.

The Polymarket betting odds provide the beginning of an answer. If on 23 June market participants gave a 50% probability of a blockade of the Strait of Hormuz, we could reasonably expect that the scenario of a rapid end to the crisis was then not necessarily the central hypothesis.

G1 : PROBABILITY OF IRAN BLOCKING THE STRAIT OF HORMUZ IN 2025

Source : Polymarket

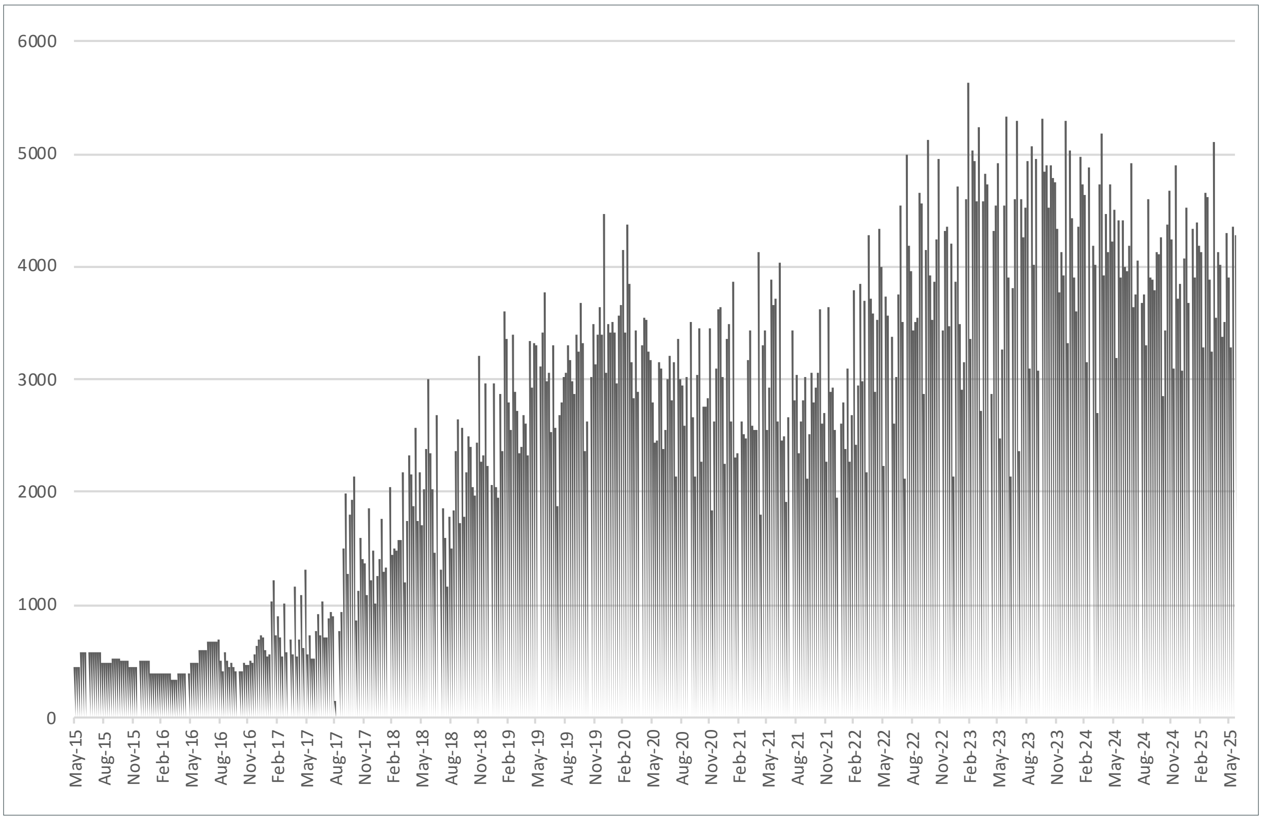
The reason for the relative indifference of equity markets to the situation in the Middle East seems to lie more in a statistical observation: market participants know that the effects of geopolitical crises tend to be short-lived.

Let's confirm this observation with some hard data: Considering the 16 main armed conflicts that took place since 1950, equity indices were on average 0.5% above their initial level (at the start of the crisis) 3 months later, and up 3.8% 6 months later*. In short, the effects of conflict on the markets may be significant in the short run, but they fade very quickly. Of course, it only works "on average": during the Yom Kippur war, the decline was prolonged (6 months after October 1973, the markets had lost 15%) and 3 months after the Kuwait invasion, the markets had also lost 15%...

What past crisis is the current situation similar to? We won't venture to give an answer, as the exercise seems out of reach, and Donald Trump's incessant U-turns (at the time of writing, he congratulated himself with the Israel/Iran ceasefire) add to the difficulty of the exercise. The most we can do is point out that the United States are now exporting crude oil, and that scenarios in which the price of a barrel of oil "goes through the roof" cannot be ruled out, but are much less likely and less impactful. On that note, it is worth reminding our readers that the price of oil quadrupled in the 6 months following the Yom Kippur War.

To get to the point, the allocations have not changed drastically since the start of the conflict. With respect to that, the positioning adopted reflects the statistical evidence and the popular expression that in the markets the worst is never certain.

G2: UNITED STATES - TOTAL CRUDE OIL EXPORTS, X1000 BARRELS / DAY



Source: Department of Energy, Banque Eric Sturdza

* *Trump Always Chickens Out*

** *Source cahiers verts*

2. FIXED INCOME

AN ECB MORE DOVISH THAN THE FED

The ECB cuts rates, then pauses

Unsurprisingly, the ECB cut rates for the fourth time this year, but suggested that a pause might now be appropriate. Inflation is back below 2% (1.9%) and growth forecasts remain muted (0.9%). Against this uncertain backdrop, not least because of tariffs, the ECB is logically choosing to wait and see, while remaining ready to act if necessary. The ECB has been successful in loosening its monetary policy, quite a sharp contrast with the Fed, which remained overly cautious. The interest rate differentials between the two zones indicate that market participants are not anticipating an imminent recession in the United States. However, the ECB could soon reverse its course and resume its accommodative policy, as already done by the Swedish Riksbank and the Swiss National Bank.

Disappointing FOMC and Powell's cautious tone

Despite slightly weaker than expected inflation figures (Core CPI and PPI) and contrary to our expectations of a dovish speech, Jerome Powell adopted a neutral to slightly hawkish tone, stressing the economic uncertainty for 2025-2026 and the potential effects of tariffs on inflation. Donald Trump has strongly criticized the Fed's inaction, accusing Powell of costing the US economy dearly by not cutting rates, unlike the ECB. A return to quantitative easing (QE) looks increasingly likely in the medium term. It would be ironic if Kevin Warsh, a staunch opponent of QE, were to replace Powell in 2026.

Against this uncertain backdrop, the Israel-Iran conflict has added to the stress, as energy prices could soar and a possible blockade of the Strait of Hormuz could have unfortunate consequences for global economic activity. However, one piece of good news for fixed income markets went virtually unnoticed: the successful auction of a 30-year bond by the US Treasury. Strong demand and a lower-than-expected yield (4.844%) indicate that investors still have an appetite for long bonds. The bond market could have panicked in the event of a disastrous auction.

Cautious fixed income strategy

Given these many uncertainties, we continue to favour short-dated bonds (2-5 years), while waiting for a clearer picture of the trend in long-term rates, which are heavily influenced by inflation and trade policies. A rise in 10-year yields above 4.6% could be an opportunity to lengthen the duration of our bond portfolios. For our USD portfolios, we are seizing the opportunity to invest in euro-denominated debt hedged back into dollars. Indeed, 3-5 year bonds in euros, hedged against currency risk, offer an extra yield (50 to 70 basis points) compared with their dollar equivalents, while providing welcome diversification at a time when some investors are beginning to question the solidity of US Treasury bonds.

3. EQUITIES
CLIMBING A WALL OF WORRY

This Anglo-Saxon expression that stresses the ability of equity markets to advance despite an accumulation of bad news has rarely seemed so adequate. Global equity markets ended the month up by nearly 4%, in stark contrast to the news over the period.

Just as the equity markets were recovering from the shock of the Liberation Day, the announcement mid-June of Israeli strikes on targets linked to Iran's nuclear program rekindled fears of an escalation of the Israeli-Palestinian crisis into a regional conflict. The alert was serious enough to see oil (benchmark BRENT) soar by more than 22% over the first 3 weeks of June. Over the same period, equity markets proved very resilient, with the S&P500 flat and the STOXX600 slightly down (-2%). Far from the extremes reached on Liberation Day, the VIX, the fear gauge, rose slightly but remained within the 20% range. Donald Trump's strikes against Iran's nuclear sites and the United States' de facto involvement in the conflict could have triggered fire and fury with skyrocketing crude oil price and volatility level (the VIX). But nothing of the sort happened...

G3 : S&P500 EPS GROWTH EXPECTED IN 2025

Source : Bloomberg, Banque Eric Sturdza

It has to be said that the Iranian response was seen as symbolic, with attacks widely telegraphed and while the threat of a blockade of the Strait of Hormuz through which almost 20% of the world's crude oil production transits daily is receding, the risk premium on oil seems no longer justified, and Brent, which had briefly flirted with $80 a barrel, collapsed and ended the month at just under $68 a barrel, well below its level at the start of the year. This decrease in risk premium resulted in the US market exceeding its all-time high, buoyed once again by the technology, communications services sector and, to some extent, energy stocks, which, although under pressure at the end of the month, held on to some of their gains.

Although waving some of the geopolitical uncertainties may partly justify this sharp rebound, the move nevertheless raises questions. The trade war is far from resolved, and investors could be quickly reminded of this when the trade truce ends. Business leaders in such kind of environment are holding back on capital spending, a situation not completely unconnected with the drastic downward revision of earnings growth expectations for the S&P500. The latter, cut by almost half, is now expected to rise by just under 7.0% in 2025. The phenomenon has not spared Europe either, where EPS growth in 2025 is expected to be close to zero, against a backdrop of uncertainty created by the trade war and the ripple effects of rising EUR.

While investors can only be glad that the situation in the Middle East has not escalated into a regional conflict, and that trade tensions probably peaked at the beginning of April, equity markets have not stayed put and enjoyed a significant rally. Tight valuation levels, particularly in North America, the slowdown in earnings growth and the continuing backdrop of a deteriorating geopolitical environment argue in favour of maintaining a convincing but selective approach to equities.

5. PERFORMANCE

EQUITIES	27.06.25	CURRENT	1 M	3M	6M	YTD	2024	2023	2022	2021	2020
	DOW JONES	43 819	3,7%	4,3%	2,9%	3,0%	12,9%	16,2%	-6,9%	20,9%	9,7%
	S&P 500	6 173	4,4%	10,0%	4,5%	5,0%	23,3%	26,3%	-18,1%	28,7%	18,4%
US	S&P500 EW	7 338	2,7%	4,5%	3,5%	3,3%	10,9%	13,8%	-11,5%	29,6%	12,8%
	NASDAQ 100	22 534	5,6%	16,9%	6,3%	7,2%	24,9%	55,1%	-32,4%	27,5%	48,9%
	RUSSELL 2000	2 173	5,1%	8,0%	-2,5%	-2,6%	10,0%	16,9%	-20,5%	14,8%	19,9%
	STOXX 600	544	-0,9%	1,8%	7,7%	7,1%	6,0%	16,6%	-9,9%	25,8%	-1,4%
	FTSE 100	8 799	0,3%	2,5%	8,3%	7,7%	5,7%	7,7%	4,6%	18,4%	-11,4%
EUROPE	CAC 40	7 692	-0,8%	-1,3%	5,2%	4,2%	-2,2%	20,1%	-6,7%	31,9%	-5,0%
	DAX	24 033	0,1%	8,4%	20,7%	20,7%	18,8%	20,3%	-12,3%	15,8%	3,5%
	SPI SWISS	16 607	-1,4%	-1,1%	7,3%	7,3%	6,2%	6,1%	-16,5%	23,4%	3,8%
	TOPIX	2 841	1,4%	6,8%	2,0%	2,0%	17,7%	28,3%	-2,5%	12,8%	7,4%
	HANG SENG	24 284	4,3%	5,0%	21,2%	21,1%	17,7%	-10,5%	-12,6%	-11,8%	-0,2%
	CSI 300	3 922	2,1%	0,9%	-1,9%	-0,3%	14,7%	-9,1%	-19,8%	-3,5%	29,9%
FX & COMMODITIES	**27.06.25**	**CURRENT**	**1 M**	**3M**	**6M**	**YTD**	**2024**	**2023**	**2022**	**2021**	**2020**
	EUR-USD	1,172	3,3%	8,3%	12,6%	13,2%	-6,2%	3,1%	-5,9%	-6,9%	8,9%
	EUR-CHF	0,936	0,3%	-2,1%	-0,5%	-0,4%	1,2%	-6,1%	-4,6%	-4,0%	-0,4%
CURRENCIES	USD-CHF	0,799	-2,8%	-9,6%	-11,6%	-11,9%	7,8%	-9,0%	1,3%	3,1%	-8,4%
	USD-JPY	144,7	0,4%	-3,5%	-7,8%	-8,0%	11,5%	10,5%	13,9%	11,5%	-4,9%
	USD INDEX	97,40	-1,9%	-6,5%	-9,9%	-10,2%	7,1%	-2,1%	8,2%	7,0%	-7,3%
	Gold	3274,33	-0,5%	4,8%	25,6%	24,8%	27,2%	13,1%	-0,3%	-4,2%	25,0%
	Silver	35,99	9,1%	5,6%	24,3%	24,5%	21,5%	-0,7%	2,8%	-13,6%	48,7%
COMMODITIES	WTI Crude Oil	65,52	7,8%	-8,3%	-7,7%	-8,6%	0,1%	-10,7%	6,7%	59,1%	-21,5%
	Natural Gas	3,74	8,5%	-9,2%	-5,0%	2,9%	44,5%	-43,8%	20,0%	46,9%	16,0%
	Copper	10118,67	6,0%	4,8%	15,1%	16,9%	2,2%	0,9%	-14,1%	25,7%	26,0%
FIXED INCOME	**27.06.25**	**CURRENT**	**1 M**	**3M**	**6M**	**YTD**	**2024**	**2023**	**2022**	**2021**	**2020**
RATES	US 10 year gvt	4,28	(0,12)	0,07	(0,26)	(0,29)	69 bps	0 bps	237 bps	60 bps	-100 bps
	German 10 year gvt	2,59	0,09	(0,15)	0,23	0,23	34 bps	-54bps	275 bps	39 bps	-38 bps
	Global Aggregate USD hdg.	595,4	0,8%	1,4%	2,6%	2,6%	3,4%	7,1%	-11,2%	-1,4%	5,6%
	US Treasuries	2369,3	0,9%	0,5%	3,4%	3,5%	0,6%	4,1%	-12,5%	-2,3%	8,0%
	US TIPS	363,4	0,7%	0,2%	4,4%	4,4%	1,8%	3,9%	-11,9%	6,0%	11,0%
	US IG Corporates	3410,5	1,4%	1,3%	3,5%	3,7%	2,1%	8,5%	-15,8%	-1,0%	9,9%
BONDS	US High Yield	2798,6	1,6%	3,3%	4,3%	4,3%	8,2%	13,4%	-11,2%	5,3%	7,1%
	Euro Government	244,4	-0,3%	1,7%	0,5%	0,5%	2,0%	7,1%	-18,2%	-3,4%	4,7%
	Euro IG Corporates	262,3	0,2%	1,7%	1,7%	1,7%	4,7%	8,2%	-13,6%	-1,0%	2,8%
	Euro High Yield	489,9	0,2%	1,7%	2,3%	2,3%	9,1%	12,8%	-11,1%	4,2%	1,8%
	EM USD Aggregate	1306,4	1,6%	2,3%	4,6%	4,7%	6,6%	9,1%	-15,3%	-1,7%	6,5%

Source: Bloomber, 27/06/25

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