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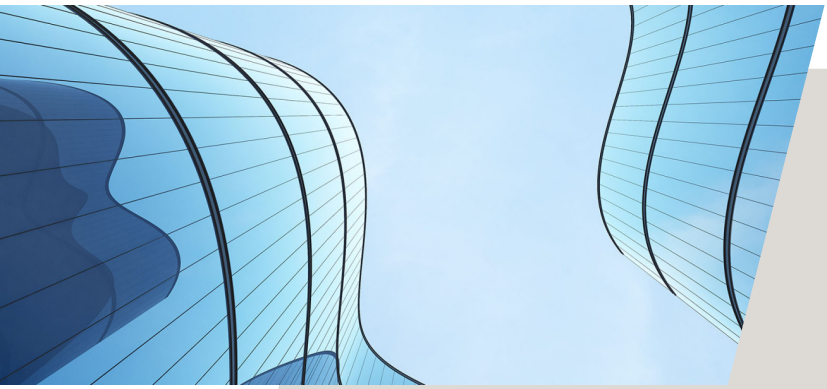

Between Tariff shock and stock market rally

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After the shock caused by the protectionist offensive of Donald Trump, stock market indices rebounded, thanks notably to the draft trade agreement concluded between the United States and China in June.

The announcement by Donald Trump on April 2nd of exorbitant “reciprocal” customs duties triggered a global stock market storm, causing the MSCI World index to fall by more than of 11 %[1]. Against all expectations, US Treasury bonds, traditionally sought for their safe-haven status, also declined due to massive selloffs. The reason for this is that investors are growing distrust towards Donald Trump's budgetary plans, which threatens to worsen the country's situation in the face of sharply rising interest rates and the significant fall in the dollar. The US President was ultimately forced to backtrack and announced the suspension of these reciprocal tariffs for 90 days, while maintaining universal tariffs of 10 %[1]. At the same time, an irrational escalation had begun with China, ahead of the signing of a truce to pave the way for more in-depth negotiations.

Despite a period of relative calm in the financial markets, Donald Trump’s protectionist offensive and repeated policy reversals have sown confusion and concern among consumers. While the Federal Reserve’s Conference Board was expecting US GDP to grow at an annualised rate of 1% in the first quarter, it finally fell 0.5 %[1], mainly due to a historic trade deficit caused by the exceptional surge in imports before the implementation of the new tariffs. In its latest economic projections, the Federal Reserve further downgraded its growth forecasts and revised upwards inflation projection, thus reinforcing the scenario of

stagflation[2]. This situation places the central bank in a delicate position with regard to its dual mandate of price stability and full employment. Much to Donald Trump's frustration, the Federal Reserve considers, for the time being, that the resilience of the labour market and the current inflationary pressures do not justify an immediate rate cut, especially as inflation remains persistently high.

In 2018, during the US president's first protectionist offensive, businesses had taken three months to pass higher tariffs on to retail prices. Jerome Powell believes he needs more time to assess the impact on economic activity of US immigration, protectionism, deregulation and taxation policies before considering a change in monetary policy.

However, several statistics, such as retail sales, jobless claims and exports, suggest that the US economy is starting to slow. In his latest statements, Jerome Powell indicated that he was not totally resistant to a rate cut in July if the labour market showed signs of weakness.

In the Eurozone, economic growth figures came as a positive surprise in the first quarter, with GDP rising by 0.6%[4] quarter-on-quarter. Nevertheless, this improvement could be undermined by the new US tariffs. While the ECB has not revised its growth forecasts for 2025, it has implemented its eighth rate cut within a year, bringing the deposit rate to 2%[5] . With the neutral rate estimated between 1.75% and 2.25%, Ms. Lagarde indicated that the ECB was approaching the end of its monetary cycle. Believing that the risks to growth remain tilted to the downside, the ECB President noted that a further rate cut in September could not be ruled out, especially since by then US trade policy should have been clarified.

In China, the 5.4% year-on-year GDP growth in the first quarter can be attributed to two exceptional factors: household consumption boosted by extraordinary government support measures and a surge in the trade surplus ahead of the implementation of US tariffs. However, the monetary and fiscal stimulus deployed thus far remain insufficient to stimulate domestic demand, which continues to be undermined by the protracted property crisis.

In this context, driven by technology stocks, US equities rebounded by 10.57% in dollars over the quarter[1], while the Eurozone gained 3.54% in euros[1]. Since the start of the year, with the US dollar having depreciated by 12% against the euro over the period, the performance gap between the two regions now exceeds 18% in euros in favour of the Old Continent. This depreciation reflects investors' growing distrust of Donald Trump's economic choices.

The rise in long-term US interest rates stems from massive sell-offs of US sovereign bonds by foreign investors, concerned by the budgetary measures included in the "One Big Beautiful Bill Act", which risk further aggravating the United States' already high public debt, standing at 125% of GDP [1]. Despite increased infrastructure and defence spending in Germany, 10-year German bond yields fell by 13 basis points over the quarter, reflecting investors' continued appetite for this asset class. Eurozone sovereign bonds, meanwhile, gained 1.85%[1] .

Our investment strategy for the third quarter of 2025

The White House tenant's unpredictability complicates the elaboration of economic scenarios to determine strategic allocations. All forecasters recently cut their global growth projections in 2025, due to the expected decline in international trade, but also raised inflation. Against this backdrop, household confidence remains low, and investor sentiment towards global economic prospects continues to deteriorate.

If trade talks have resumed since 9 July, they are likely to end on US trade deals, in line with Donald Trump's original goal of rebalancing trade. With equity markets returning to all time highs and valuations less attractive in an uncertain environment, we continue to advocate a prudent investment strategy. The latter is reflected in a neutral equity exposure, strong geographical diversification and a substantial money market allocation in anticipation of attractive entry points. The return of volatility should allow for more tactical and opportunistic positioning.

Equities

Although we are maintaining a neutral exposure, we have continued to favour the eurozone, which is benefiting from a cycle of monetary easing, an improving economic outlook , particularly thanks to Germany’s fiscal stimulus plan, and a beginning of global capital reallocation away from US equities. Despite a structural underweight to US equities we tactically increased our allocations after the falls. We also continued to favour emerging markets in Asia, particularly China, where the economy has been resilient since the beginning of the year. At a sectoral level, we began to take some profits on eurozone banks, which have gained 38% since the beginning of the year[1].

Rates

Global Fixed Income markets gained 4.52% [1] in the second quarter of 2025, despite rising in US long rates . We maintained our investments in Eurozone sovereign debt, which benefited from renewed interest among international investors seeking alternatives to US debt, which has become more vulnerable to political and currency risks.

Credit

Despite very tight spreads[6], we continued to position ourselves in European Investment Grade[7] credit, which still offers high returns while default rates remain low. We remain invested in emerging market debt which has benefited from a weaker US dollar. We also continued to take some profits and reinvest them in money market funds while waiting to have more visibility on the evolution of several sources of concern and thus have liquid reserves to seize opportunities.

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(1) Source: Bloomberg, 30/6/2025
(2) Stagflation is the situation of an economy that is suffering from low or zero economic growth and high inflation.
(3) Source: Eurostat, June 2025
(4) Source: ECB, June 2025
(5) Source: Bloomberg, 30/06/2025. Bloomberg Global Aggregate index.
(6) Spread refers to the difference in yield between a bond and a loan of equivalent maturity considered to be ‘risk free.’
(7) Debt security issued by corporations or governments that are rated between AAA and BBB- on the Standard & Poor's scale.

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Für weitere Informationen: www.am.eu.rothschildandco.com

(1) Quelle: Rothschild & Co Asset Management, 31/07/2026.

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