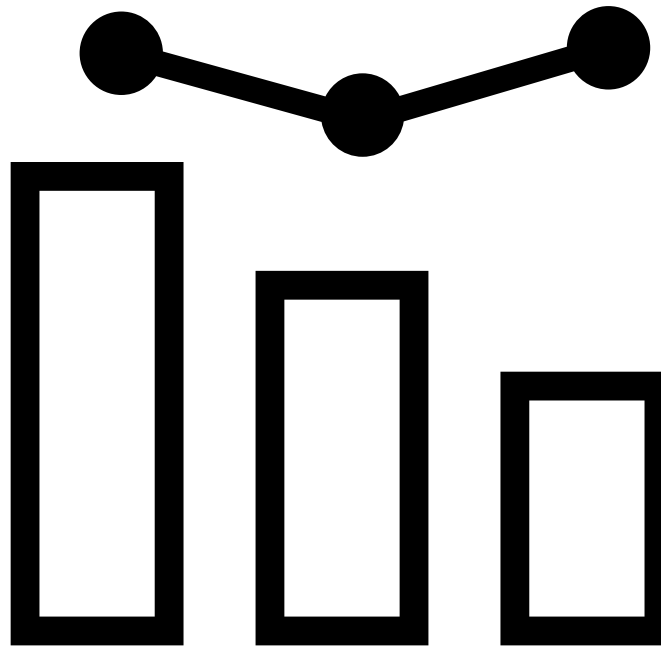




Market update

June 2025

June 2025: the start of summer in the financial markets as well

There was little movement in the financial markets in June. The US S&P 500 index posted a new record level, but the benefit from this for euro investors was only marginal due to the simultaneous depreciation of the US dollar.

Despite a dramatic start in April, most stock markets had a reasonable quarter on balance, with quarterly returns of around 3%. However, in the second quarter, European stocks were not able to continue the outperformance of their US counterparts in the first quarter of 2025. On the contrary, in June, European equities clearly underperformed the US with a return of -1.3% for the MSCI Europe index against a monthly return of +1.7% for the MSCI North America index. The difference in US dollars was even larger, but due to the depreciation of the dollar against the euro of more than 3% in June, the return on US equities for euro investors was still disappointing.

The dollar fell more than 10% in value in the first half of 2025, the largest depreciation on a six-month basis since the first half of 1973. Dollar weakness has also been a major cause of the return differentials between European and US equities since the beginning of the year. This difference is clearly in favour of European equities, with a return of 8.5% for the MSCI Europe index since the beginning of 2025 and -5.4% for the MSCI North America index, both measured in euros.



Equity markets outside Europe and the US generated returns between those realised in Europe and the US in the first half of the year, with +0.7% for the MSCI Asia Pacific index and +2.4% for the MSCI Emerging Markets index. Due to the heavy weight of US equities in the world index, the MSCI World Developed Markets index nonetheless posted a net loss of 3.6% for the first half of the year.

Bond markets had a significantly less eventful six months than equity markets, with mostly slightly positive returns since the beginning of the year, ranging from +0.5% for European government bonds to +1.8% for European investment grade corporate bonds and +2.7% for higher-risk European high-yield corporate bonds. Finally, European listed real estate had a reasonable first half of the year, returning +6.4% since the beginning of 2025.

The returns on the various asset classes were as follows:

Rendementen (total return, in euro's)	June	Q2	2025	12 mths
Bloomberg Barclays Eurozone Staatsobligaties	-0.2%	1.9%	0.5%	4.5%
Bloomberg Barclays Euro Bedrijfsobligaties	0.3%	1.8%	1.8%	6.0%
Bloomberg Barclays Euro High Yield Bedrijfsobligaties	0.4%	2.1%	2.7%	8.1%
FTSE/EPRA Europe Onroerend Goed	0.2%	8.4%	6.4%	4.9%
MSCI Europe Aandelen	-1.3%	2.5%	8.5%	8.1%
MSCI North America Aandelen	1.7%	2.8%	-5.4%	5.8%
MSCI Asia Pacific Aandelen	1.0%	3.7%	0.7%	5.3%
MSCI World Developed Markets Aandelen	0.9%	2.4%	-3.6%	4.8%
MSCI Emerging Markets Aandelen	2.6%	3.3%	2.4%	5.3%
EUR/USD	3.3%	8.4%	12.6%	9.4%

Source: Bloomberg

The IMF also says that the trade war will worsen the economic outlook

A quarter ago, the global economy seemed to be in calm waters, at least in the opinion of IMF economists, for example. At that time, growth of 3.3% was still expected in 2025, exactly the same as actual growth in 2024 and forecast growth in 2026. Since then, many economists, including those at the IMF, have changed their minds. The IMF now expects the global economy to grow by only 2.8% in 2025 and 3.0% in 2026. The sharpest downward revision to its forecast is for the US, where growth is expected to be only 1.5-2% in both 2025 and 2026. The growth outlook is currently also considerably less favourable than expected a quarter ago for Mexico, where the IMF now actually anticipates negative growth for 2025 as a whole, and Canada. The IMF has also become less optimistic for almost all other countries, but its downward revisions to growth forecasts for Europe for example are still relatively limited.

The immediate reason for the increased pessimism among economists is fairly clear: US President Trump's announcement of much higher-than-expected trade tariffs on the so-called 'Liberation Day', 2 April. The actual impact of these trade tariffs on the global economy has so far been limited, in part because President Trump has retreated to some extent since 2 April and has at least left room for negotiations that could lead to better (or at least less negative) outcomes. The main outcome so far has been an increase in uncertainty regarding policy, which in itself is detrimental to the global economy. Uncertainty can lead to companies delaying investments and consumers spending less. In fact, the first effect of Trump's announcement was visible even before 'Liberation Day', with a sharp increase in imports to the US towards the end of the first quarter. As a result, US economic growth was less than 0% in the first quarter, the first contraction in the US economy in three years.

Trade war will hurt Europe, but there are bright spots

The European economy got off to a relatively good start in 2025, with growth of 0.6% quarter-on-quarter (1.5% year-on-year) in the first quarter. The upcoming quarters are not expected to match this first-quarter performance, partly due to the stronger euro and the continuing threat of a trade war with the US. For the longer term, however, the outlook for the eurozone has improved recently rather than deteriorated. This is partly due to the new German government, which looks to be more willing than previous governments to take measures to boost growth. In other European countries as well, governments and companies appear to be more willing to invest, for example in infrastructure and the defence industry.

The extent to which these investments will actually boost European economic growth depends to some extent on where and on what this money is spent, and how the expected investments will be funded (such as higher taxes, more cuts in other areas or higher debt). In any case, ratification of the new standard of 5% of GDP to be spent on defence at the recent NATO summit in The Hague will provide a boost for European industry and, in the most optimistic scenario, could create a flywheel effect for the wider European economy over time.



Emerging economies will be hit hardest by the trade war and the geopolitical risks

Trump's trade tariffs pose a greater threat for emerging markets than for Europe, owing to their generally higher dependence on exports to the US. This is especially true for the Chinese economy, which had already showed disappointing quarter-on-quarter growth of 1.2% in the first quarter of this year. Even so, the damage thus far has been limited. In the coming quarters, however, the Chinese economy is not expected to be able to maintain growth at this level. Meanwhile, the other Asian powerhouse, India, appears to be little bothered by US trade tariffs for the time being, with continued strong growth of 7.4% year-on-year in the first quarter. However, India is also not expected to continue to grow at this rate. In the coming quarters, economists expect India to see decelerating growth towards 6-6.5%.

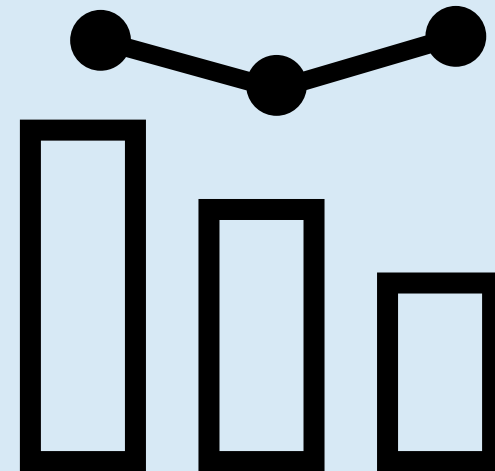
The outlook for other emerging economies is mixed, with determining factors including geopolitical risks and the development of oil prices as well as dependence on trade relations with the US. The former two factors are still the most relevant for countries in the Middle East and Russia/Ukraine at present. The economies of oil-producing countries, such as Russia, Saudi Arabia and Iran, are under pressure both from declining demand for oil (partly as a result of the energy transition and the moderate development of the global economy) and from weakening supply-side discipline (at the OPEC countries).

Inflation picture has clearly improved, but will this continue?

The inflation picture has improved further over the past quarter, in both the eurozone and the US. Headline inflation is now 2.0% in the eurozone (compared to 2.2% a quarter ago) and 2.4% in the US (compared to 2.8% the previous quarter). Core inflation, excluding volatile food and energy prices, has also declined, but remains above the Fed's and the ECB's 2% inflation target, at 2.8% in the US and 2.3% in the eurozone. The fact that core inflation is not falling faster seems to be mainly due to still tight labour markets in both the eurozone and the US, with unemployment rates at 4.2% and 6.2% respectively. This continues to create upward wage pressure, and hence upward pressure on consumer prices.

The inflation outlook for the coming period is mixed. The weaker growth outlook for the global economy may cause inflationary pressures to subside further, for example through rising unemployment and more moderate wage development. On the other hand, governments in both the eurozone and the US have big plans to spend more money, and that may in turn create inflationary pressures, especially in the longer term. The extent to which this actually happens depends in part on how the spending plans will be funded. In the US, a comprehensive package of policy measures is on the table, under the Trumpian name of the 'One Big Beautiful Bill Act' (OBBA). This package is expected to lead to an increasing fiscal deficit (up to 7% of GDP by 2026, according to the Congressional Budget Office) and an increase in US government debt of about \$3 trillion over the next decade.

The prospect of further increases in the budget deficit is, in principle, inflationary. The potential for Europe is the same if, for example, higher spending on defence and infrastructure were to be funded through higher budget deficits and higher government debt, but this is less certain than in the US for the time being, and will therefore probably only impact the inflation outlook in the longer term.



ECB can take a more relaxed approach for now, but US situation more challenging for Fed

In the shorter term, besides the economic growth outlook, potential oil price developments will also play an important role in the inflation outlook, especially for headline inflation. At the end of June, the oil price was around 10% lower than a quarter ago, so at first glance there seems little reason to expect upward inflationary pressure from there. However, it should be noted that oil prices briefly rose by around 20% in June, to more than USD 80 per barrel of Brent crude. This was due to the Israeli, and then American, attack on Iran, which briefly looked like the start of a Third Gulf War. Calm quickly returned in the second half of the month, also in the oil market, but geopolitical turmoil, especially in the Middle East, clearly continues to be a determining factor for both economic growth and inflation prospects.

For central banks, the question is whether the improved inflation data now also heralds an end to the series of interest-rate cuts. This appears to be the case for the ECB: after two rate cuts in the second quarter, with the base rate in the eurozone now at 2%, the interest-rate market is still counting on at most one rate cut in the coming six months. For the US central bank, the picture is less clear-cut. Further widening of fiscal deficits, especially in combination with the threat of a trade war, could contribute to renewed inflationary pressures and thus also to the need to keep interest rates high. For the time being, however, the interest-rate market is assuming that inflationary pressures will remain moderate enough, and/or that economic growth will come under such pressure that the Fed will reduce its base rate further (currently 4.5%), to 3-3.5% in the course of next year.

Above-average risks, valuation and the summer period are not supportive for stocks

Recent movements in financial markets suggest that the outlook for the global economy, both in terms of growth and inflation, has not changed materially since 'Liberation Day'. This assessment may have been overly optimistic. Even if new trade agreements are signed between the US and Europe and/or the US and China, there is a good chance that they will prove to be less favourable than the situation that existed before 'Liberation Day'. In addition, approval of the One Big Beautiful Bill Act by the US Congress may provide a stimulus for the US economy, but also increase the inflation risk and the debt burden in the US. With the recent recovery in the stock markets, equities (especially US equities) have now become relatively expensive again. With the summer approaching, with traditionally less liquidity in financial markets, and still above-average geopolitical and political risk, we remain cautious on balance about the outlook for equities and maintain a slight preference for cash.

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