REYL OVERSEAS
Intesa Sanpaolo Group

STRATEGY OUTLOOK

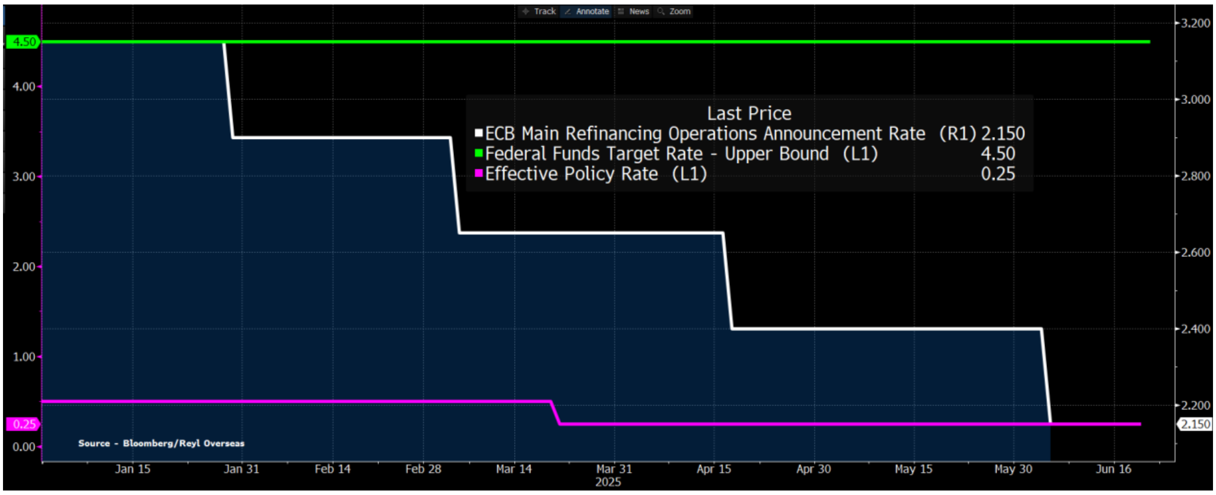
JULY 2025

Key takeaways-

- Geopolitical shenanigans but equities don't care.
- The supply of oil is key.

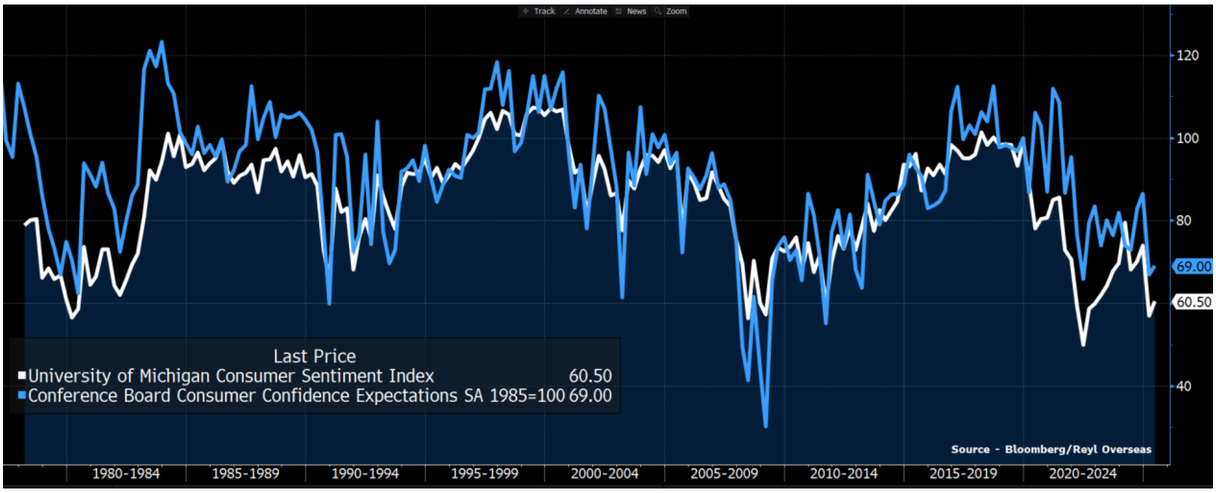
Amid yet more policy uncertainty from the new administration markets were and are unfazed. There was some volatility in oil, from the risk of the Straits of Hormuz closing, but largely the price action did not reflect the noise and opinion that flooded the airwaves.

The Trump administrations escapades in the Middle East, frankly, left many confused and unable to unbridle facts from narratives, if indeed facts matter these days. The right to have access to nuclear energy was, at times, confused with the access to nuclear weapons. Ultimately, for markets, the only concern was the supply of Oil. The Strait of Hormuz was not closed and hence markets remain, by and large, content. **The S&P barely budged from its lofty position with all markets,** apart from the Nikkei, up and green for the year.



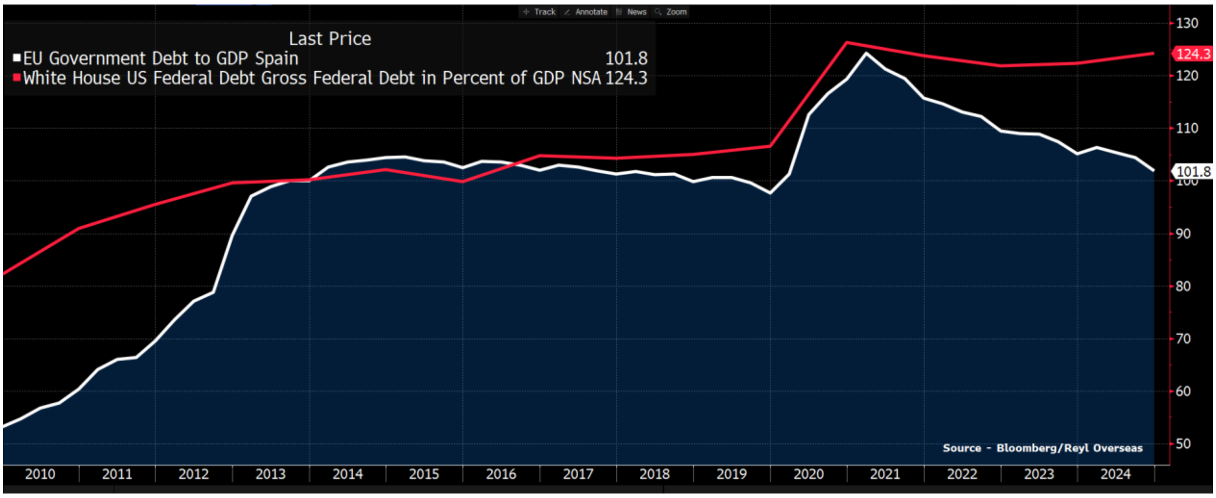
A big question for investors is whether American exceptionalism, is indeed, over. Has the relentless outperformance of US stocks withered? Trump has successfully pushed the thrifty Europeans into increasing their defence spending. Indeed, the tariff fiasco (for lack of a better word) and Trump's effective war mongering, it could be argued, have, if anything, further supported the strategy of taking profits on US holdings and moving away from the Dollar into cheaper and, arguably, better value overseas.

It's still very very early but the data shows no money has yet left the US, but net new flow has gone into European and other non-USD markets. US economic data is waiting to see the impact on inflation from the tariffs and to what extent the US jobs market is in trouble. The Federal Reserve certainly aren't unduly worried. **Whilst the Europeans and Swiss reduced their base rates** the Fed kept rates unchanged. The graph above highlights the moves. What's interesting is that despite the Fed keeping US rates at 4.5% the USD has continued to slide. In CHF terms the USD has lost 12.9% whereas the EUR has lost 0.88%. In theory, that shouldn't happen or is reminiscent of an Emerging market where the currency falls despite high interest rates.



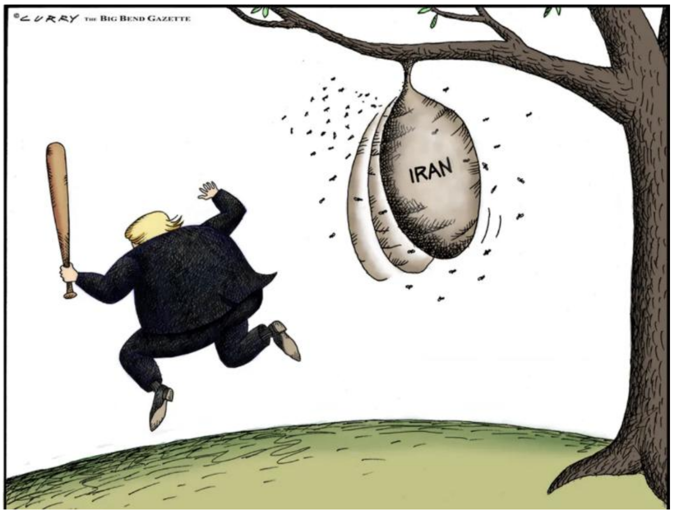
But we know investment flow is not leaving the US so something else is occurring. **The new Administration won't be complaining and are probably actively behind the weakness** pushing the currency, Treasury yields and oil lower.

All these factors will cause financial conditions to weaken **and act as a support for markets**. Indeed, there is an argument we see acceleration in the forward leading indicators as these forces impact the economy. Sentiment amongst investors does feel negative and hence the risk is likely more a blowoff top than a decline. As the second graph highlights, the US consumer is struggling. **Consumption is 70% of GDP** and so sentiment indices at these levels are a concern. Is the impact of inflation and higher borrowing costs post covid still feeding through? Add in the mix that delinquencies on credit cards, auto loans and mortgages are rising and it's not a great picture. Also housing, according to the National Association of Home builders' data, doesn't appear to be too rosy either.



We could certainly be in an environment whereby the real economy is at odds to the markets. There has been a disconnect for years. The total US stock market capitalization is now roughly 200% of GDP. Buffett has previously claimed anything above 140% is dangerous. One reason why Berkshire is sitting on cash. **Increasing the money supply has been the universal band-aid for authorities since the GFC**. This modus operandi won't change now until it simply fails. As the last graph highlights the Spanish are actively paying down their debt accrued over covid. Compare this to the US (red line) who continue to spend, DOGE seems to have failed and a White House happy to go on the geopolitical offensive.

In summary we remain close to neutral with cash available. The doom and gloom both from a tariff and recessionary point of view look overdone. The market has however bounced in a V shape and needs to break all-time highs to progress further so there is natural resistance. **However, the trend is clearly bullish.** Earnings are expected to grow 14% yoy so we will see to what extent this drives the market.



We halved our position in Gold two months ago looking for some weakness, which as of yet, hasn't occurred. The price hasn't advanced but looks to be consolidating which may be very positive. We would use **any weakness as a buying opportunity** as the long-term trend is clear. If debt levels are indeed increased, then Gold should outperform equity markets. Real assets also have the benefit of acting as protection to a weaker Dollar. We remain pretty much fully invested with a little cash available if the opportunity arises into what may or may not be a quiet summer?

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