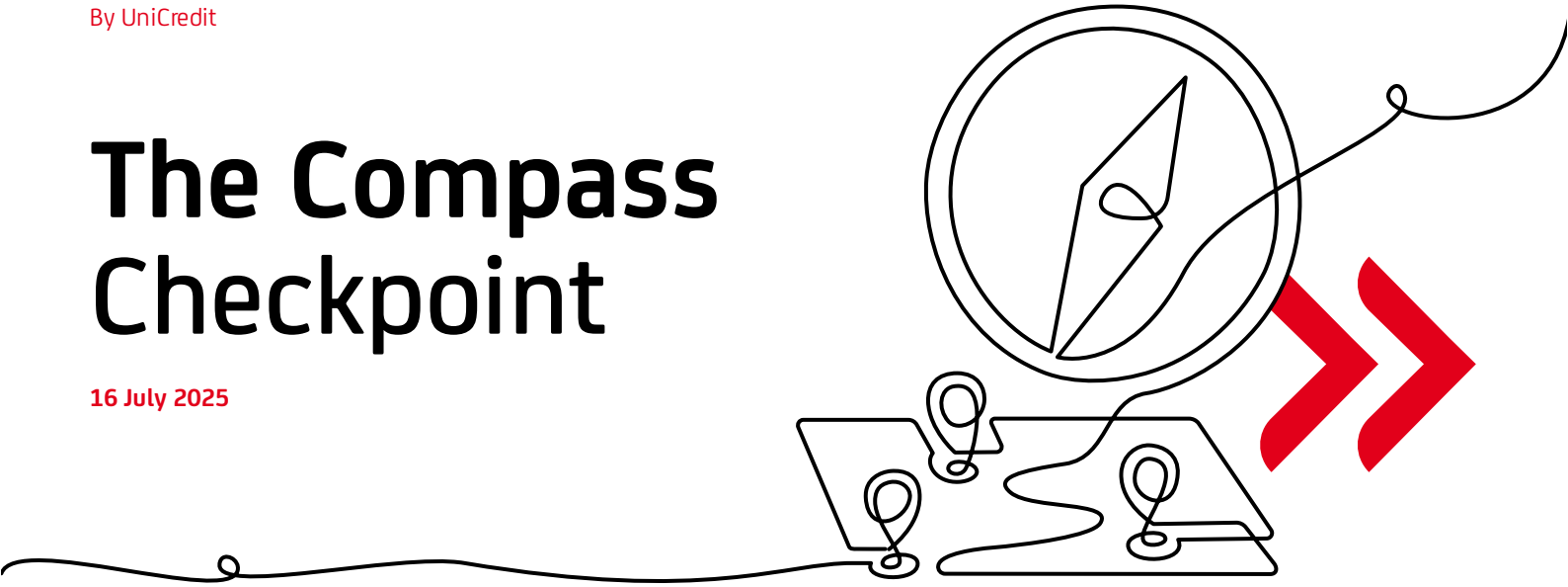
The Investment Institute
By UniCredit

The Compass Checkpoint

16 July 2025



Empty threats

Empty threats may ultimately damage the credibility of any negotiator. The first six months of Trump 2.0 have been characterized by a series of major empty threats, from last-minute extensions of deadlines on tariff negotiations to claims that Fed Chair Jerome Powell could be fired or that foreign investors might be taxed via Section 899 of the One Big Beautiful Bill Act (OBBBA).

So far, the most clamorous of these empty threats has been the 9 July deadline that US President Donald Trump applied to his 2 April tariffs. This flip-flopping has set the tone of the new global trade (dis)order that is taking shape under the Trump administration. Its stated ambition was to negotiate 90 trade deals in 90 days, even if it usually takes 18 months for a single trade agreement to be negotiated and four years for one to be implemented.

This clash between ambition and reality has led to the announcement of few framework deals (with negotiations of key details still dragging on) and the postponement of the tariff-pause deadline to 1 August for all other countries, with new tariff threats being issued in letters sent from the White House (including the one to the EU threatening a 30% tariff rate). Despite these letters, we still expect that a 10% tariff rate on US imports will become the new floor for European goods, while smaller trading partners will likely end up facing higher rates than larger ones (with the exception of China) – thereby limiting economic costs for the US while maximizing political gains to present to Trump's base.

However, even if threats are not followed through, they could still have a material impact on financial markets. The first half of this year has been characterized by sizable market volatility, particularly following Trump's 2 April tariff announcement, with the safe-haven status of the US dollar being the main victim so far.

When reneged threats become part of a repeated pattern, there is the risk that markets could become too complacent. Threats could be taken seriously but not literally up to the point where markets could begin ignoring them. The market calm following the missed deadline of 9 July is symptomatic of that, but ignored threats might create a vicious circle in which Trump feels comfortable raising the bar for his attacks, leading to more volatility down the road.

Manuela D'Onofrio
Chair of
The Investment Institute

Fabio Petti
Co-Chair of
The Investment Institute

Edoardo Campanella
Director and Chief Editor of
The Investment Institute

View from the CIOs

Alessandro Caviglia (Italy), Philip Gisdakis (Germany), Oliver Prinz (Austria)

Developments in 1H25 were remarkable and historic. The year started with the Trump trade, where investors sought to benefit from a strong US economy, with higher US stock prices, higher UST yields and a strong USD. By mid-February, US stocks hit an all-time high, particularly for EUR investors due to USD strength. However, the crisis caused by Trump's "Liberation Day" tariff announcement in early April flipped this trajectory. Investors questioned the safe-haven status of US government debt, prompting the sale of US assets. Market jitters were sparked in early summer by geopolitical uncertainty, partly due to the conflict between Israel and Iran.

In the meantime, volatility has subsided. US equities have rallied to reach new all-time highs in USD terms, while UST yields have declined, and the USD has regained some ground. However, US equities remain in negative territory from a EUR perspective due to the current weakness of the USD. The recovery of US stocks is the result of tax cuts enshrined in the One Big Beautiful Bill Act (which will benefit corporations), easing of tensions in the Middle East, and the market's assumption that the White House's tariff threats are perhaps more bark than bite.

Risk-on sentiment has been bolstered by robust growth prospects in the US and Europe. Furthermore, there have been no indications of a significant inflationary impact from rising US tariffs thus far. Nevertheless, despite this positive outlook, markets are pricing in a substantially steeper rate-cut cycle as suggested by the Fed's own projections and those of many economists. Such steep rate cuts imply slower growth and appear inconsistent with earnings growth.

We believe that, in this environment, there is a case for increasing exposure to equities, particularly European ones (and from more-cyclical sectors) and slightly more measured exposure to fixed-income assets, in particular, to the UST, as the latter may be impacted by rising deficits and new government bond issues. Within the fixed-income category, we find corporate bonds and emerging-market debt particularly appealing.

ASSET ALLOCATION

OUR INVESTMENT VIEW TOWARD ASSET CLASSES

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
Global equities		●	
US equities		●	
European equities		●	
Pacific equities (developed markets[1])		●	
Emerging-market equities		●	
Global bonds			●
Government bonds (E)		●	
Government bonds (N-EMU)		●	
Corporate bonds (EUR investment-grade)			●
Corporate bonds (high-yield)	●		
Emerging-market bonds (hard currency)			●
Emerging-market bonds (local currency)			●
Money markets	●		
Alternatives		●	
Commodities		●	
Oil		●	
Gold		●	

1. Developed markets: Australia, Japan, Hong Kong, New Zealand, Singapore

Macro Stories

Edoardo Campanella, Marco Valli and Daniel Vernazza

1 The Big Beautiful Bill will undermine US public finances

On 4 July, US President Donald Trump signed the One Big Beautiful Bill Act (OBBBA) into law. In a nutshell, the bill extends until the end of 2034 all the individual and business tax cuts that were enacted through Trump's 2017 Tax Cuts and Jobs Act (TCJA) and that would otherwise have expired at the end of the year. We expect this to modestly support GDP growth over the next couple of years. The tax cuts are to be partially paid for by cutting green energy incentives and reducing welfare spending, the recipients of which are overwhelmingly low-income groups. It also includes raising the so-called debt ceiling.

According to the Congressional Budget Office's initial estimate, the bill will add around USD 3.4tn cumulative to the country's primary deficits over the next ten years compared to previous law (i.e. before the OBBBA). Including interest costs, federal debt would rise by USD 4.1tn by 2034, taking the federal debt-to-GDP ratio from around 100% currently to 127% by 2034 – around 10pp higher than projected under the previous law. The federal deficit would average 7% of GDP over the next decade, which is very high, with interest spending rising from around USD 1tn this year to almost USD 1.7tn by 2034.

2 ECB and Fed: one more cut in 2025

The next Fed meeting on 29-30 July is unlikely to bring a change in interest rates. While Fed officials are increasingly split, with two members saying they could vote for a cut in July, a clear majority want to wait for more economic data. The Fed expects inflation to rise over the summer due to tariffs. If it doesn't, the Fed would very likely cut in September and December. But if, as we expect, inflation does rise and the labour market does not significantly deteriorate, then we see just one rate cut this year, in December.

At its June meeting, the ECB signalled that the easing cycle was coming to an end. The central bank will likely leave interest rates unchanged on 24 July, preferring to wait for more data to assess the appropriateness of its stance. Inflation has declined to 2% and we expect it to stabilise at around this level, with risks tilted to the downside over the next 12-18 months. We forecast a final 25bp cut in September, which would take the deposit rate to 1.75%.

3 Slowing Chinese economy

The second quarter was challenging for China due to the escalation in trade tensions with Washington that led to tariffs on Chinese exports to the US spiking to 145%, before they were later lowered. This uncertainty translated into moderately slowing GDP growth in 2Q25 to 5.2% yoy, down from 5.4% in 1Q25, when the frontloading of exports ahead of Trump's 2 April tariff announcement lifted activity. Domestic demand remains weak as a result of the ongoing crisis in China's property market. Deflationary pressure is proof of the persistent challenges posed by this. The government has supported consumer spending with a cash-for-clunkers program, but this is not enough to sustain private consumption in a sustained way. The PBoC is likely to maintain its easing monetary-policy stance. A 12 August deadline for a trade agreement is looming, but it is unlikely to lead to a breakthrough deal.

FOCUS 1

Trade negotiations are set to drag on well into the summer

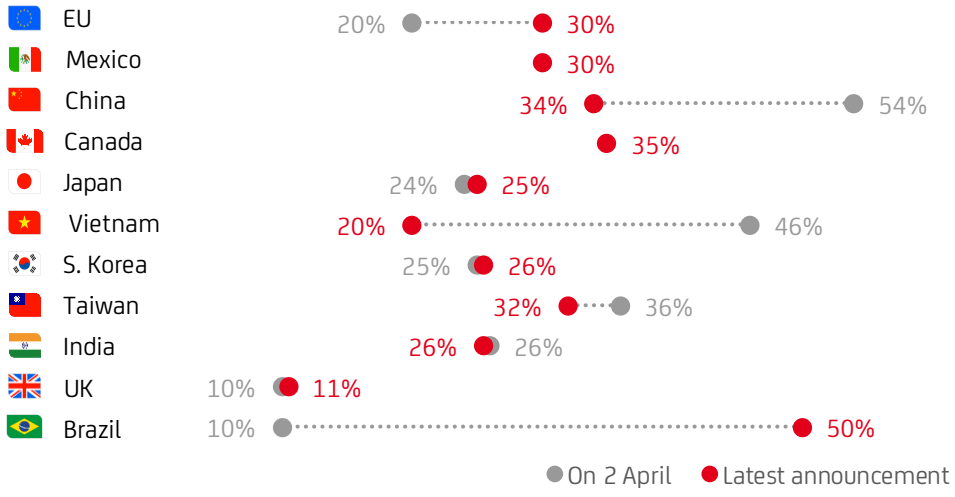
Authors: Tullia Bucco, Loredana Maria Federico

Negotiations between the US and its main trading partners have largely stalled, leaving Washington with just three rudimentary agreements in place (with the UK, China, and Vietnam). Given the complexity of trade negotiations, the consensus view was that, on 9 July, the Trump administration would announce a plethora of highly preliminary trade agreements that would require further negotiations to finalize, particularly with regard to sectoral tariffs and non-tariff trade barriers. However, having not even achieved framework agreements, US President Donald Trump has decided to push back the deadline for the implementation of new tariffs to 1 August. Instead of recognizing that the previous timeline was not realistic, Trump has blamed trading partners and sent letters to them, thereby continuing to put pressure on negotiating partners while capitalizing politically with his electoral base.

The latest round of tariff letters sent to Brazil, Canada, Mexico and the EU have all included an increase in reciprocal tariffs rather than the confirmation of the 2 April tariffs that letters sent to smaller Asian countries contained (see Chart 1.1). The US administration's threat to impose a 30% reciprocal tariff on the EU is disappointing, especially given the apparent progress made in recent weeks, during which an agreement in principle between Brussels and Washington seemed within reach. That said, it is below the 50% rate that Trump threatened to impose a few weeks ago. The 30% rate should be read as a means of putting pressure on Europe to reduce their demands for concessions on sectoral tariffs and to soften their resistance to further easing non-tariff barriers.

CHART 1.1: MOVING TARGETS

RECIPROCAL TARIFFS ANNOUNCED BY THE US TO SELECTED TRADING PARTNERS



Source: White House, The Investment Institute by UniCredit

We think that tariffs will eventually come down from the levels announced in these letters. However, this does not mean that tariffs will return to where they were before 2 April. The new floor for tariffs (including for the EU) will likely be 10%, while China will probably face a higher minimum tariff. The risk that the final rate for Europe might fall somewhere between 10% and 20% has increased, but this is unlikely to materially impact our GDP-growth scenario. Germany, Ireland, Italy and France remain particularly vulnerable due to their significant exports to the US.

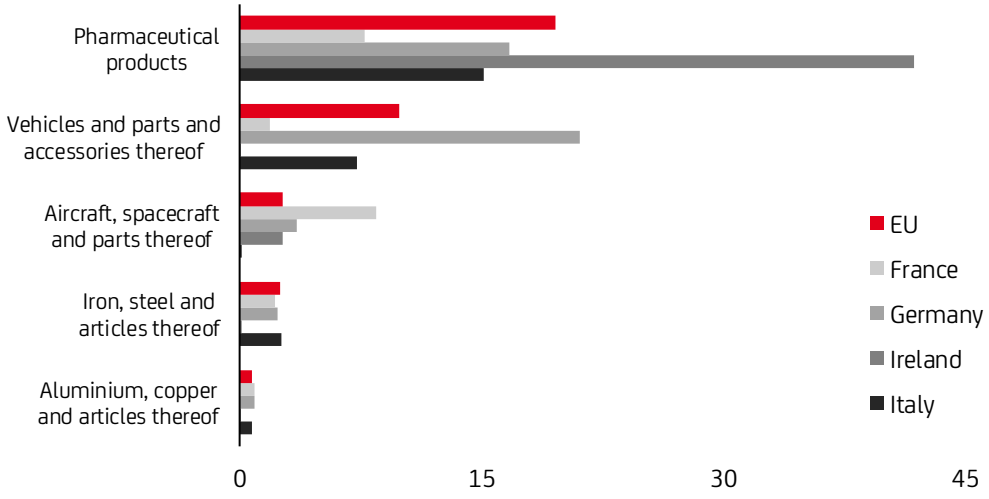
Smaller US trading partners (such as some Asian countries) will likely face higher tariffs, on average, than larger ones as the economic costs to the US would be contained while political gains in terms of messaging to Trump's base would be maximised. If our interpretation is correct, we cannot rule out further delays as the 1 August deadline approaches – especially if markets remain complacent and interpret Trump's move as a bluff.

Before the latest tariff escalation, Brussels seemed willing to accept a 10% rate as a new tariff floor if any first-stage agreement contained exemptions for specific industries, such as the automotive (subject to a 25% tariff), steel and aluminium industries (50%), commercial aircraft (10%) and an up-front US commitment to avoid imposing tariffs on products that have so far been spared (but are under investigation), such as pharmaceuticals and semiconductors. The European Commission's focus on these sectors reflects the significant exposure they have in the EU in terms of exports to the US.

Sectoral tariffs on cars and car parts, as well as on iron, steel and aluminium, could hit Germany hard (see Chart 1.2). In addition, higher tariffs on pharmaceuticals, on which Trump threatened a staggering 200% rate recently, could severely impact EU exports, given they represent a 20% share of total EU exports to the US. Ireland has substantial pharmaceuticals exports and would be particularly affected, albeit mitigated by the role of US multinationals, but so would Germany and Italy. Meanwhile, France's specialisation in aircraft exports makes it particularly vulnerable to higher tariffs in this sector.

CHART 1.2: PRESSURE POINTS

EXPORTS TO US BY SELECTED PRODUCTS (% OF TOTAL, 2024)



Source: Eurostat, The Investment Institute by UniCredit

These divergent interests help explain why Europe is struggling to strike a deal with the US, necessitating more time for negotiations. In response, the European Commission has announced another extension of the suspension of retaliatory measures against the US, which were set to take effect on 15 July, and will continue talks aimed at reaching a mutually beneficial agreement.

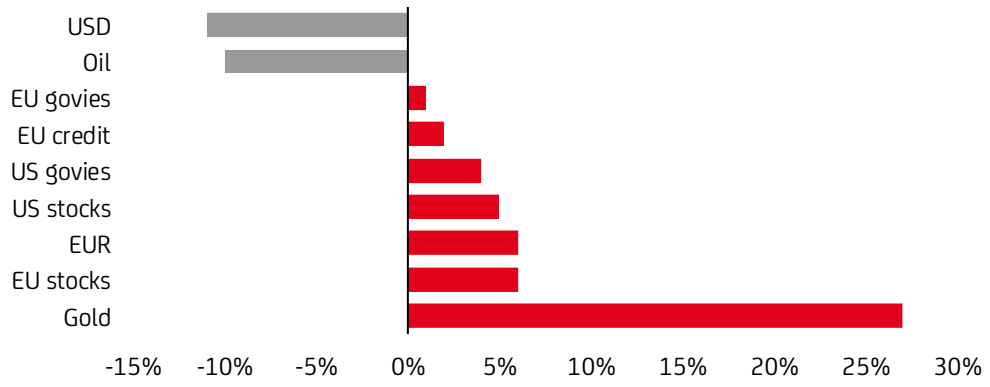
Market Stories

Authors: Francesco Maria Di Bella, Tobias Keller, Stefan Kolek, Roberto Mialich, Jonathan Schroer, Christian Stocker, Thomas Strobel, Michael Teig

The noise …

In a turbulent first 1H25, financial markets experienced significant fluctuations, driven by the occurrence of dramatic events. Gold was the best performing asset supported by demand for safe-haven assets and the need for central banks to diversify their assets. Stock indices rebounded from April and are higher than at the beginning of the year. European equities have slightly outperformed their US peers. The USD is the most notable loser so far this year, as it has lost 10% against other currencies, with investor concerns regarding Trump's policies having weighed on the greenback. On the other hand, the EUR index has risen by 5%. Oil has lost ground (-10%) from where it started 2025 as a result of the aggressive supply strategy adopted by OPEC+. Eurozone government bonds and corporate bonds have returned 1% and Treasuries 4%, supported by expectations of a more dovish Fed.

CHART 2.1: WINNERS AND LOSERS IN THE FIRST HALF OF THE YEAR
REALISED RETURN IN 1H25



Source: Bloomberg, The Investment Institute by UniCredit

… and the signal

The trade war will likely remain the key driver for markets. We expect government bonds to deliver positive returns, although UST carry could be eroded by repricing of expectations on the Fed. European stocks are set to perform well, while US stock valuations look stretched. We expect the USD to depreciate further albeit at slower pace. In commodities, gold will edge slightly higher in our view, while oil prices should remain below the USD 70/bbl threshold.

Equities

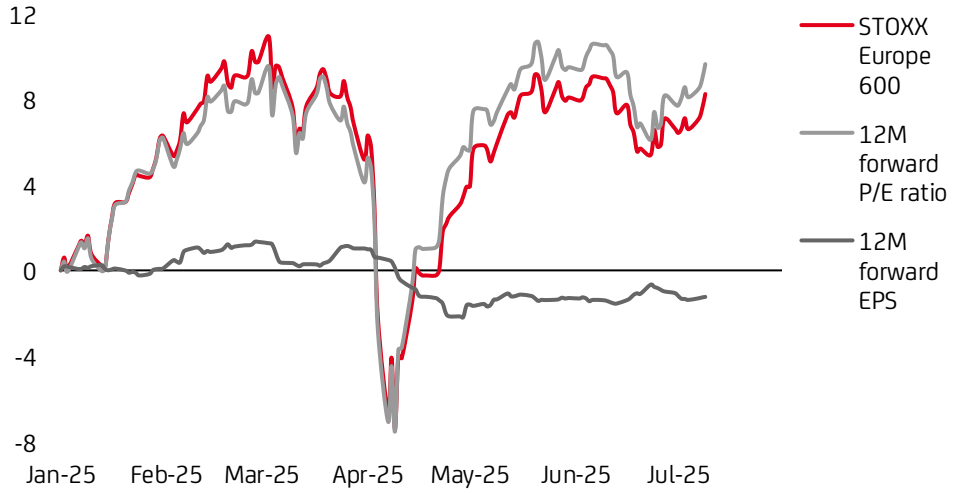
Short-term volatility, but solid medium-term picture

The second quarter saw **global stock markets** recover strongly from the shock triggered by US President Donald Trump's "Liberation Day" tariff announcement on 2 April. The long-awaited 9 July tariff deadline was extended to 1 August, and the US administration recently declared that 30% tariffs would be placed on EU exports to the US. While this 30% tariff rate is not yet the final number and negotiations are continuing, this declaration has injected uncertainty into global financial markets. This means that although we think tariffs will come down from levels announced, market volatility might remain elevated as a result. After months of erratic and contradictory policy announcements, the pain threshold for financial markets has increased. This might limit further stock-market potential for the time being.

Although European economic growth prospects for 2026 are improving, company earnings growth is still sluggish. On a positive note, however, it is worth noting that the second-quarter reporting that has just begun will most likely mark the cyclical low point in corporate earnings growth. By the middle of next year, we expect European 12M forward earnings estimates to have increased by around 10%, slightly below consensus estimates. This increase in corporate profits is urgently needed, as the positive stock market performance so far this year has largely been based on an expansion in valuations, as the chart 2.2 shows. While the P/E ratio of the European stock market, at 14, is only slightly above its 20-year average of 13.2, the P/E ratio of the US stock market is two standard deviations above its long-term average (current P/E ratio 23, average 16), which is very expensive by historical standards. Such high valuations represent a limitation to further price potential for the time being.

Against this backdrop, the further development of company earnings is crucial. Given our assumption of gradually increasing economic growth in Europe and a slight slowdown in the US, **European earnings should increase by around 11%** (STOXX Europe 600) in 2026, up from near zero growth this year (S&P 500: 2025 +13%, 2026 +13%). Although earnings growth in the US is expected to slightly exceed that of European companies in 2026, we do not see a significant performance difference between Europe and the US, largely due to the dampening effect of the high stock-market valuation in the US and the weakening USD, which reduces some of the attractiveness of US equities from an EUR investor's perspective.

CHART 2.2: RE-RATING WAS THE DRIVING FORCE BEHIND 1H25 PERFORMANCE
CHANGE YTD, IN %



Source: Bloomberg, The Investment Institute by UniCredit

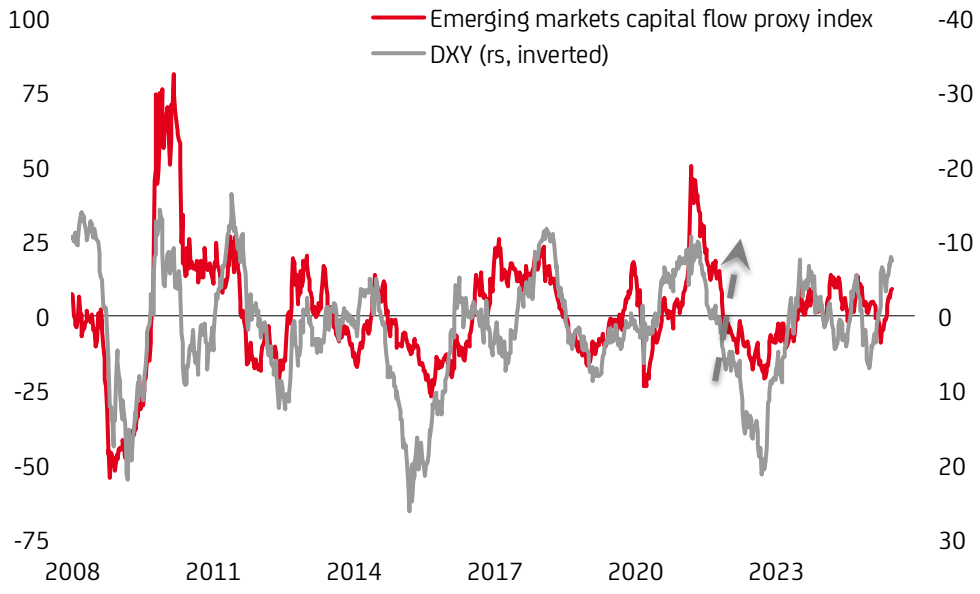
While we expect **the environment to remain volatile throughout the third quarter, we have a constructive view for stock markets over a 12-month horizon**. Our mid-2026 target for the S&P 500 is 6,500 index points and for the Euro STOXX 50 we expect 5,750 index points (for more index targets, see our risky asset forecast table).

Emerging-market stocks are well-positioned to begin outperforming their developed-market counterparts. For many investors, emerging markets (EM) have faded into the background over the last few years as US stocks have experienced a "roaring twenty-twenties" era. Developed-market equities – predominately those in the US – have amply beaten their EM peers. This problem is not confined to China, which accounts for about 25% of the MSCI EM index. Even excluding China, EM have seen a significant underperformance of about 35pp since 2020.

However, these markets are starting to look attractive and liquidity in EM improves. An important reason is the weaker USD. Many EM have inverted balance sheets, where there is a currency mismatch between local-currency assets and dollar liabilities. This was the "original sin" of emerging markets, which they are increasingly avoiding by borrowing more in their local currencies. Still, balance sheets remain broadly inverted, which means that they, and their growth prospects, improve as their currencies strengthen against the dollar, making them more attractive to investors. Typically, a weaker USD leads to increased flows into EM stocks, although this does not appear to have happened to a noticeable extent yet, as the chart 2.3 shows.

CHART 2.3: WEAKENING USD TO SUPPORT EM CAPITAL INFLOWS

YOY, IN %



Source: Bloomberg, The Investment Institute by UniCredit

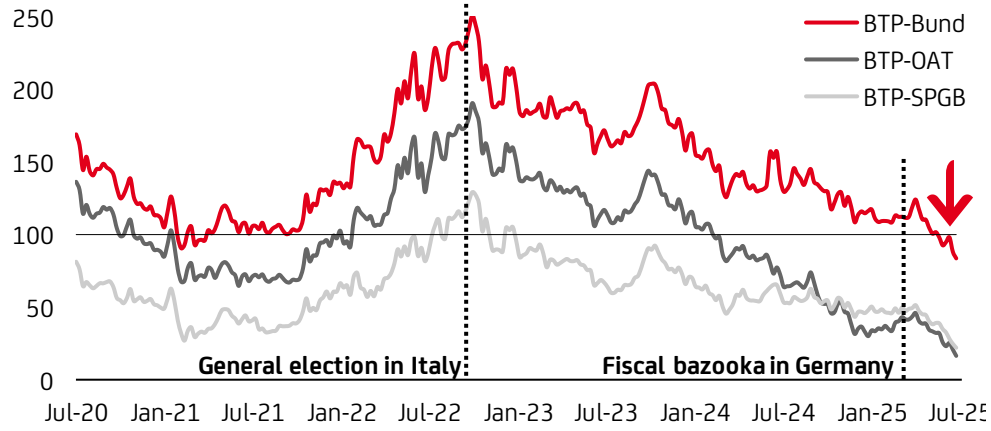
Fixed Income

Government bonds in wait-and-see mode ahead of more clarity on tariffs

After trading broadly sideways in the past few weeks, government bonds have recently come under pressure in both the US and the eurozone. While the economic uncertainty brought about by the trade war remains high, markets have regarded latest tariff developments as not particularly negative for growth and this brought back inflationary concerns (also due to the rebound in commodity prices). This has pushed investors to avoid excessive duration exposure. The 10Y UST yield has risen, failing to reach the 4.5% threshold. The UST curve shape is little changed compared to a month ago. The 2/10Y UST spread stands at 50bp, in line with its level since mid-April.

On the other side of the Atlantic, the 10Y Bund yield has risen towards 2.70%, with the curve moderately steeper than it was a month ago. With respect to EGBs, BTP performance has come in the spotlight as Italian govies have outperformed peers across tenors. After breaking below 100bp at the end of May, the 10Y BTP-Bund spread has reached the 85bp area, its tightest level since 2010. Appetite for carry, improving macro and fiscal fundamentals and a stable political picture in Italy favoured demand for Italian paper. We think these factors will continue to support BTPs going forward, keeping the 10Y spread to Bunds below 100bp.

CHART 2.4: ITALIAN GOVIES HAVE OUTPERFORMED PEERS
10Y YIELD SPREAD (IN BASIS POINTS)



Source: Bloomberg, The Investment Institute by UniCredit

Tariff developments are set to remain key for government bond performance in the coming months. If negative news were to come on the trade front, with the US unwilling to lower tariffs against its trade partners, the divergence between EGBs and USTs would increase as the former would likely benefit from expectations of a weaker economic outlook in the eurozone and the latter would probably be hit by prospects of reaccelerating inflationary pressure in the US. If the US and the EU manage to reach a deal, which we expect, the impact on EGBs and USTs will probably be contained as **1.** it seems the scenario expected by most investors and **2.** such agreement would not remove the elevated economic uncertainty the world has been experiencing recently.

Hence, we continue to expect the **10Y UST and Bund yield** to close the year at 4.5% and 2.6%, respectively, not far from their current levels. We see room for the 10Y transatlantic spread, currently at 170bp, to widen by roughly 10bp in the coming months.

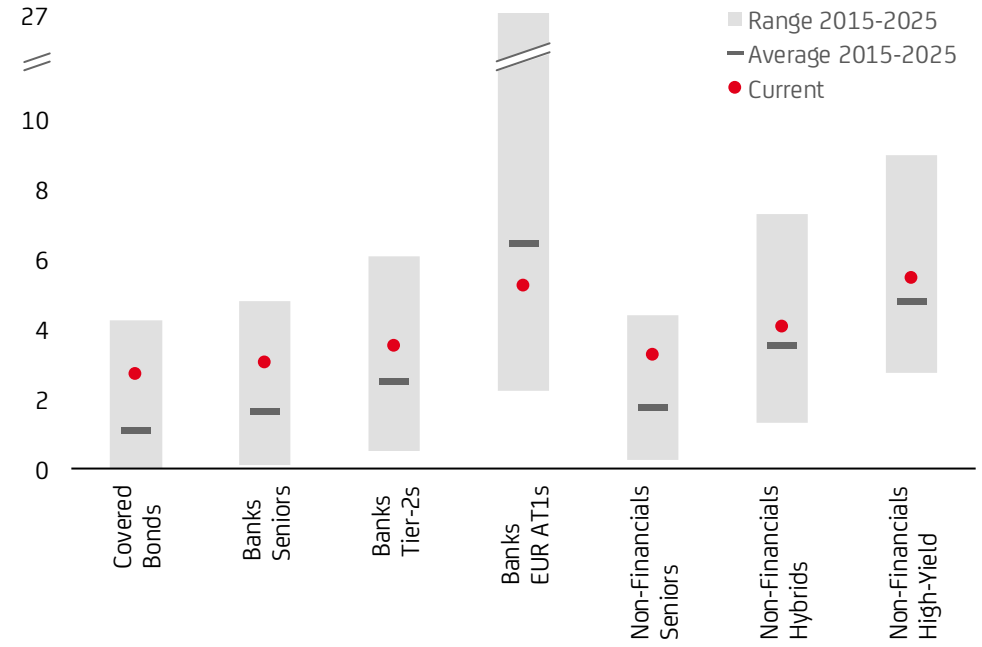
European corporate credit to show limited volatility

In our base case scenario, we see only limited scope for volatility in European corporate credit on the back of US tariff policies in the coming weeks and reiterate our constructive view on the asset class. Corporate credit remains supported by generally solid credit metrics, a picture that is likely to be confirmed during the upcoming earnings season. Against this backdrop, the rating momentum remains neutral, with number of upgrades within the iBoxx indices balancing that of downgrades among both investment grade and high yield issuers.

Stable-to-lower refinancing costs are supporting credit metrics and creating scope for opportunistic prefunding, which should, however, be seen as credit-positive, given the current low visibility caused by persistent geo-economic risks going forward. We expect **spreads to move sideways**, with some risk of a moderate spread widening in non-financials credit market segments in the case of escalating trade tensions with the US.

For banks, we expect positive second-quarter results, which should confirm the resilient credit story of financials, in particular the high capitalisation and the manageable normalization of asset-quality indicators. Moreover, European credit continues to be supported by appealing carry, which remains well above its ten-year average across segments (see Chart 2.5) and is expected to be the key source of total return. Only bank AT1s display a tighter current yield than their ten-year average, which reflects stretched valuations at the moment, which could revert quickly in a risk-off market environment.

CHART 2.5: HISTORICAL YIELD LEVELS OF BANK AND NON-FINANCIAL CREDIT
YIELD FROM 2015-2025, IN %



Source: S&P Global, Bloomberg, The Investment Institute by UniCredit

Commodities

Crude oil

Recent weeks have been marked by heightened geopolitical tensions following escalation and military actions in the Middle East, briefly pushing Brent crude prices above **USD 80 per barrel**. However, the ceasefire between Israel and Iran has since restored some calm, with prices settling around pre-conflict levels. Meanwhile, under Saudi Arabia's leadership, OPEC+ has implemented four successive monthly output increases this year, boosting total supply by almost 1.8 million barrels daily. Riyadh's measured yet assertive strategy seeks to reclaim market share while curbing excess production from members failing to comply with agreed quotas.

The futures curve hints at short-term supply constraints, but these are expected to be fleeting. Looking beyond the summer, the combination of continued supply increases and steady output elsewhere, while global demand growth remains subdued, points to an emerging surplus. On balance, we see little reason to revise our Brent forecast for the second half of 2025, which remains at USD 65–70 a barrel, with risks tilted to the downside.

Natural gas

Dutch TTF natural gas prices have been trading in a range of around EUR 33-35/MWh since a ceasefire was declared on 24 June in the brief Israel-Iran conflict. The current trading level is even lower than where prices were before the conflict broke out. We therefore see no geopolitical risk factored into current prices. Weaker Asian LNG exports in 1H25 have also increased available supply and weighed on prices. In addition, macroeconomic activity is likely to slow in the coming quarters as rising tariffs in the US are likely to weigh on global macroeconomic activity.

We see upside risk to TTF prices at current levels since the European restocking season is well behind schedule after the cold winter severely depleted reserves. In addition, a hot summer in Asia and Europe would increase demand for electricity for air conditioning, which would stimulate LNG demand. We think there is a strong likelihood that TTF prices could rise in the coming months given the potential for higher LNG demand in Asia and Europe as well as a potential flareup in geopolitical tensions in the Middle East. We therefore confirm our average TTF price forecast for 2025 of **EUR 40-45/MWh**.

Gold

Over the past two months, gold has hovered around 3,300 USD per ounce. It halted its advance, which occurred during January and April, as optimism over trade policy developments reduced the metal's safe-haven appeal. However, markets remain focused on a wave of tariff demand letters from US President Donald Trump following earlier tariff announcements on copper imports and other countries, fuelling concerns over broader trade disruptions. On the geopolitical front, the de-escalation of the Israel-Iran conflict has further reduced the demand for safe-haven assets.

Meanwhile, ongoing weakness in the USD limited gold price losses amid expectations of further monetary easing by the Federal Reserve due to a slowly cooling US labour market. Given this macro backdrop and our expectation that geopolitical tensions following US trade policy, as well as demand for gold by central banks, will remain in place during the second half of 2025, we are maintaining our constructive forecast of a range-bound gold price between **3,400 – 3,500 USD per ounce** until the end of the year.

FX

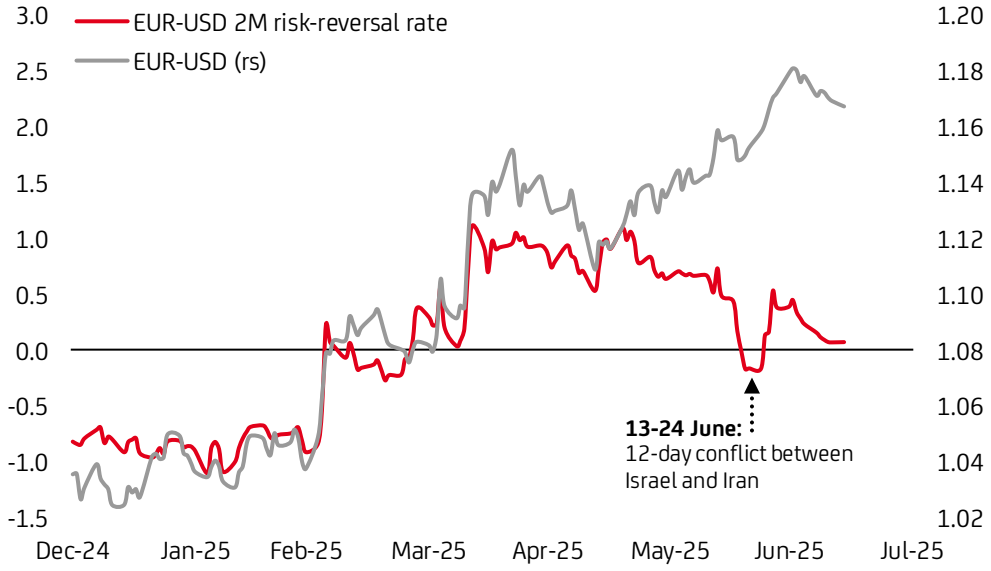
Still a firmer EUR-USD, despite uncertainty about EU-US tariffs

In FX, the limited and short-lived recovery of the USD during the Israel-Iran conflict confirmed its diminished appeal as safe-haven currency. Yet, uncertainty about US tariffs, as President Trump warned that the 1 August deadline will not be extended, has driven EUR-USD off the recent year-to-date high of 1.1829 (its exact average value since its launch in 1999) back below 1.17. However, EU intentions to avoid escalation and delay countermeasures after Trump announced a 30% tariff on EU exports to the US helped contain FX market reactions.

The modest correction of EUR-USD also reflects the lack of new catalysts on the monetary-policy front, as both the ECB and the Fed are expected to remain on hold this month. The wait-and-see mode of investors is reflected in the 2M risk-reversal rate (the difference in implied volatility between out-of-the-money call and put options for a given maturity) returning around zero after a move from negative to positive at the end of the Israel-Iran conflict (see chart 2.6). A weaker USD is a common view in the market and technical indicators say that it is oversold, but reasons for a trend reversal are still hard to find.

We thus remain bearish on the greenback, also considering President Trump's pressure on the Fed to cut rates and worries about the rising US public debt. The lack of a US recession and less intense Fed easing than markets expect (our baseline scenario) might at most limit the intensity of a further USD slide. We expect the pair to trade around **1.19 by December,** in line with recent remarks by American and European policymakers that EUR-USD gains beyond 1.20 would be complicated.

CHART 2.6: MARKETS' WAIT-AND-SEE ATTITUDE IS REFLECTED IN A ROUGHLY FLAT EUR-USD 2M RISK-REVERSAL RATE



Source: Bloomberg, The Investment Institute by UniCredit

FOCUS 2

Summer seasonality: negative for equities, positive for bonds

Authors: Luca Cazzulani, Christian Stocker

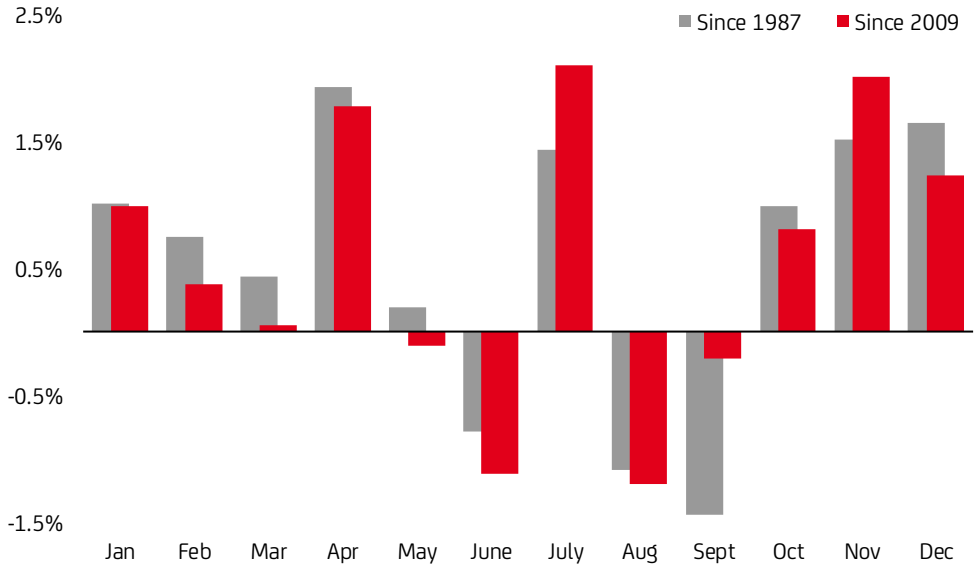
Seasonality is a regularity that can be observed in financial markets and that often has to do with human behaviour. In stock markets the saying "Sell in May and go away" conveys the idea that investors should sell their stock holdings in May to avoid a seasonal decline in equity markets. The phrase is thought to originate from an old English saying: **"Sell in May and go away, come back on St. Leger's Day"** (the St. Leger Stakes is a highlight of the UK horse-racing calendar. It occurs around mid-September).

During the summer period, trading volumes tend to be lower due to vacations, leading to thinner liquidity. This can amplify price movements, as fewer trades are needed to move markets. Portfolio rebalancing also has an impact, especially when underlying trends and driving factors for the stock market are in question. Institutional investors often adjust their portfolios at the end of the first half-year to prepare for the second half of the year. The months of August and September, in particular, show negative seasonality, as the chart 2.7 shows. For this purpose, we calculated the monthly average performance of the STOXX Europe 600 since 1987 and since 2009.

The comparison of the two periods highlights the pronounced seasonality. Over the last few weeks, we have mentioned in our publications that we do not expect further upward potential during the summer months, largely due to elevated valuations and overly optimistic short-term earnings expectations. Therefore, we think it likely that the traditionally muted seasonal pattern followed by global equities during the summer period could be particularly pronounced this year. However, although a short-term setback is likely, we would not cut exposure to stocks over a six-to-nine-month horizon, and we continue to consider any setbacks as buying opportunities.

CHART 2.7: PRONOUNCED SEASONAL PATTERN ON THE STOCK MARKET

STOXX EUROPE 600: AVERAGE MONTHLY PERFORMANCE IN %



Source: Bloomberg, The Investment Institute by UniCredit

We have established that equity markets tend to display unfavourable seasonality in August and September. What about government bonds? Primary market activity and trading volumes decline significantly during the summer, and this creates the conditions for seasonal regularity. Furthermore,

as financial markets are highly integrated, the existence of a seasonal pattern in one asset class could induce a corresponding pattern in another asset classes.

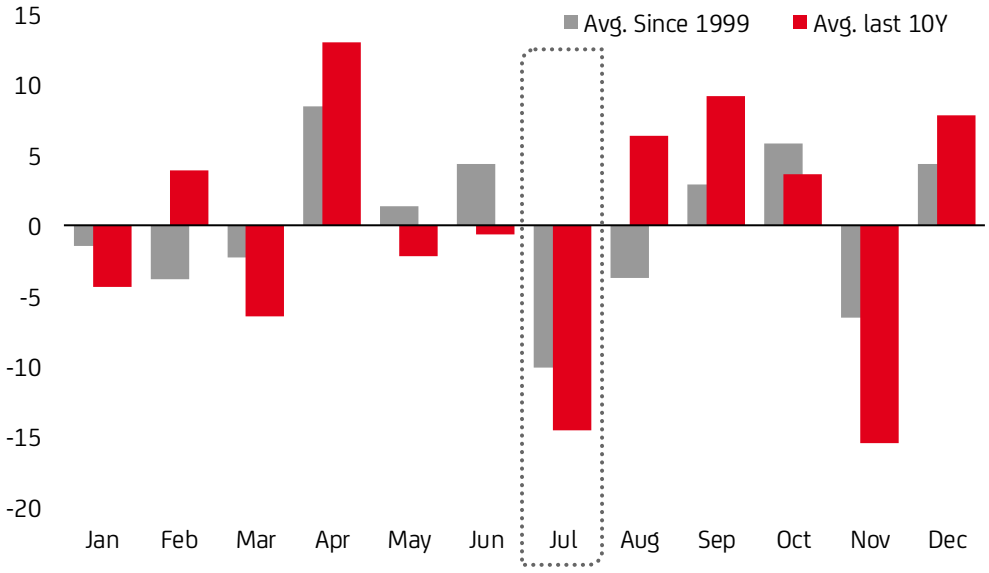
Since yields have followed a declining trend for most of the past three decades, a first step is to remove this from the data to better focus on purely seasonal movements. In our analysis, we have used a centred moving average to remove the long-term trend from yields. This has the advantage of being simple to implement and intuitive. Other techniques, such as the Hodrick-Prescott filter, do not lead to substantially different results. Chart 2.8 shows that yields tend to fall in July. The decline in the 10Y Bund yield observed in July over in the last ten years is stronger than in adjacent months.

Seasonality is more muted in June and August tends to be a month of profit taking in bonds. The chart shows that the seasonal effect in July has been in place for a very long time and has not changed significantly in recent years. A possible explanation for this finding is that investors prefer to reduce risk in their portfolios ahead of the summer recess. This would lead to the adverse seasonality observed in equity markets and the positive seasonality seen in bonds. A second possible reason is that June and in July are months with low net supply in Germany. This probably creates a supportive environment for Bunds.

Within the eurozone, BTPs also tend to benefit from a favourable seasonal effect. The auction size traditionally reduces in the summer months and almost comes to a halt in August, which leads to a positive performance versus swap. The move typically starts in June and gains momentum in mid-July, during the summer lull. On the other hand, August tends to be characterized by profit-taking as investors prepare for the resumption of supply in September

CHART 2.8: JULY TENDS TO BE A POSITIVE MONTH FOR BUNDS

10Y BUND YIELD – SEASONAL FACTOR (BP)



Note: For each month, the chart shows the average extra change in yield relative to the three months before and after.
Source: Bloomberg, The Investment Institute by UniCredit

Forecast Tables

Unicredit Forecasts

GDP, CPI AND BUDGET BALANCE FORECASTS

	Real GDP (% Y/Y)			Consumer prices (% Y/Y)			Budget balance (% of GDP)		
	2024	2025	2026	2024	2025	2026	2024	2025	2026
Global	3.2	2.7	2.9						
US	2.8	1.5	1.9	2.9	2.8	3.1	-7.3	-7.3	-8.3
Eurozone	0.8	1.0	1.0	2.4	2.1	1.8	-3.1	-3.7	-3.5
Germany	-0.2*	0.1*	1.3*	2.2	2.0	1.7	-2.8	-3.0	-3.3
France	1.1	0.6	1.1	2.0	1.0	1.3	-5.8	-5.6	-5.3
Italy	0.5	0.5	0.8	1.0	1.7	1.6	-3.4	-3.4	-3.0
Spain	3.2	2.4	1.8	2.9	2.1	1.9	-3.2	-2.8	-2.5
UK	1.1	1.1	1.1	2.5	3.2	1.9	-5.7	-4.5	-3.8
China	5.0	4.8	4.1	0.6	0.9	1.8	-7.4	-7.6	-7.7
Japan	0.2	0.9	0.7	2.7	2.8	1.9	-3.5	-3.4	-3.0
India	6.5	6.2	6.3	4.7	4.2	4.1	-7.4	-6.9	-7.2

Source: The Investment Institute by UniCredit
*Non-WDA figures. Adjusted for working days: -0.2% (2024), 0.2% (2025) and 1.0% (2026)

CENTRAL BANKS WATCH

	Current	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
Fed	4.50	4.50	4.25	4.25	4.00	4.00	4.00
ECB	2.00	1.75	1.75	1.75	1.75	1.75	1.75
BOE	4.25	4.00	3.50	3.25	3.00	2.75	2.75
BoJ	0.50	0.75	0.75	1.00	1.00	1.00	1.00
Riksbank	2.00	1.75	1.75	1.75	1.75	1.75	1.75
Norges Bank	4.25	4.00	3.75	3.50	3.50	3.50	3.50

Source: The Investment Institute by UniCredit
Note: Figures are end-of-period

INTEREST RATE AND YIELD FORECASTS

	14.07.25	3Q25	4Q25	1Q26
Eurozone				
Depo rate	2.00	1.75	1.75	1.75
3M Euribor	2.04	1.75	1.75	1.75
2Y Schatz	1.90	1.80	1.80	1.80
10Y Bund	2.71	2.50	2.60	2.70
2Y EUR swap	2.03	1.95	1.95	1.95
10Y EUR swap	2.67	2.55	2.65	2.75
10Y Bund-swap spread	-3	5	5	5
2Y BTP	2.10	2.00	2.00	2.00
10Y BTP	3.56	3.40	3.50	3.70
10Y BTP-Bund spread	86	90	90	100
US				
Fed fund rate	4.50	4.50	4.25	4.25
3M OIS SOFR	4.33	4.23	4.15	4.11
2Y UST	3.90	4.00	4.00	4.00
10Y UST	4.43	4.50	4.50	4.50
10Y UST-Bund spread	172	200	190	180

FX FORECASTS

	15.07.25	3Q25	4Q25	1Q26
EUR-USD	1.17	1.18	1.19	1.20
USD-JPY	148	142	140	139
EUR-JPY	173	168	167	167
GBP-USD	1.34	1.34	1.33	1.32
EUR-GBP	0.87	0.88	0.89	0.91
USD-CNY	7.17	7.19	7.15	7.14
EUR-CNY	8.39	8.48	8.51	8.57

Source: Bloomberg, The Investment Institute by UniCredit

RISKY ASSETS FORECASTS

	15.07.25	End-2025	Mid-2026
Oil			
Brent USD/bbl.	69	68	65
Equities			
Euro STOXX 50	5,371	5,600	5,750
STOXX Europe 600	547	565	590
DAX	24,161	24,500	26,000
MSCI Italy	104	108	112
S&P 500	6,269	6,300	6,500
Nasdaq 100	22,856	23,000	24,000
Credit			
iBoxx Non-Financials Senior	79	95	90
iBoxx Banks Senior	76	90	87
iBoxx High Yield NFI	281	310	300

Source: Bloomberg, S&P Global, The Investment Institute by UniCredit

For detailed forecast tables click the following links:

Economics > | FI > | FX > | Risky Assets >

Development of selected financial market indices

From	**7/12/2024**	7/14/2020	7/14/2021	7/14/2022	7/14/2023	7/14/2024	7/14/2020	**1/1/2025**
To	**7/14/2025**	7/14/2021	7/14/2022	7/14/2023	7/14/2024	7/14/2025	7/14/2025	**7/14/2025**
STOCK MARKET INDICES (TOTAL RETURN, IN %)								
MSCI World (in USD)	**13.7**	37.3	-15.9	22.4	22.5	13.7	98.4	**10.5**
MSCI Emerging Markets (in USD)	**12.5**	29.1	-25.5	10.1	13.3	12.5	32.3	**16.4**
MSCI US (in USD)	**13.7**	40.0	-14.0	21.0	26.3	13.7	112.3	**7.4**
MSCI Europe (in EUR)	**7.3**	28.1	-7.5	17.2	17.3	7.3	73.7	**10.3**
MSCI AC Asia Pacific (in USD)	**10.3**	27.5	-22.8	12.5	14.9	10.3	38.6	**13.0**
STOXX Europe 600 (in EUR)	**7.9**	28.6	-8.9	17.1	17.4	7.9	72.5	**10.6**
DAX 40 (Germany, in EUR)	**28.9**	24.4	-20.7	28.6	16.2	28.9	88.8	**21.4**
MSCI Italy (in EUR)	**22.9**	26.6	-14.4	46.2	28.0	22.9	149.0	**21.3**
ATX (Austria, in EUR)	**26.4**	54.2	-13.8	17.8	23.4	26.4	145.0	**27.9**
SMI (Switzerland, in CHF)	**-0.4**	20.9	-7.8	6.1	15.8	-0.4	34.9	**6.1**
S&P 500 (US, in USD)	**13.1**	38.9	-12.1	20.9	26.4	13.1	114.3	**7.3**
Nikkei (Japan, in JPY)	**-2.3**	28.7	-5.0	24.3	29.4	-2.3	90.6	**0.0**
CSI 300 (China, in Yuan)	**19.1**	7.7	-13.3	-7.4	-8.5	19.1	-6.7	**3.8**
BOND MARKET INDICES (TOTAL RETURN, IN %)								
US government bonds 10Y (in USD)	**2.3**	-4.5	-12.0	-3.6	0.5	2.3	-16.1	**3.4**
US government bonds (ICE BofA , in USD)	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
US corporate bonds (ICE BofA A-BBB, in USD)	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
German Bunds 10Y (in EUR)	**0.7**	-0.8	-12.2	-8.8	2.6	0.7	-17.5	**-1.4**
EUR government bonds 1Y-10Y (iBOXX, in EUR)	**2.6**	0.5	-12.4	-6.3	3.9	2.6	-11.7	**-0.2**
EUR corporate bonds 1Y-10Y (iBOXX, in EUR)	**5.4**	3.7	-11.8	-1.2	6.6	5.4	1.6	**1.9**
BOND YIELDS (CHANGE IN BASIS POINTS = 0.01 PERCENTAGE POINTS)								
US government bonds 10Y (in USD)	**25**	74	160	86	41	25	381	**-15**
US government bonds (ICE BofA , in USD)	**0**	0	0	0	0	0	0	**0**
US corporate bonds (ICE BofA A-BBB, in USD)	**0**	0	0	0	0	0	0	**0**
German Bunds 10Y (in EUR)	**24**	12	147	136	-1	24	314	**33**
EUR government bonds 1Y-10Y (iBOXX, in EUR)	**7**	1	169	127	-9	7	291	**26**
EUR corporate bonds 1Y-10Y (iBOXX, in EUR)	**-38**	-48	268	112	-54	-38	237	**1**
EURO EXCHANGE RATES (CHANGE IN %)								
US dollar (EUR-USD)	**7.3**	3.8	-15.3	12.2	-2.6	7.3	3.2	**12.5**
British pound (EUR-GBP)	**3.1**	-6.2	-0.7	1.2	-1.8	3.1	-3.6	**4.5**
Swiss franc (EUR-SFR)	**-4.5**	1.4	-9.2	-2.0	1.1	-4.5	-12.9	**-1.1**
Japanese yen (EUR-JPY)	**-0.4**	6.7	6.7	11.9	11.6	-0.4	41.9	**5.7**
COMMODITIES (CHANGE IN %)								
Commodity Index (GSCI, in USD)	**37.2**	-1.7	-7.1	14.7	22.7	37.2	76.0	**26.5**
Industrial metals (GSCI, in USD)	**-1.2**	43.2	-13.7	7.6	8.4	-1.2	41.0	**4.4**
Gold (in USD per fine ounce)	**38.8**	0.8	-6.4	14.8	23.1	38.8	85.4	**27.5**
Crude oil (Brent, in USD per barrel)	**-19.4**	74.1	32.5	-19.4	7.2	-19.4	61.6	**-7.4**

Source: Refinitiv Datastream, The Investment Institute by UniCredit (as of 14 July 2025)

Note: Past values and forecasts are not a reliable indicator of future performance. Indices cannot be purchased and therefore do not include costs. When investing in securities, costs are incurred which reduce the performance. The return on investments in foreign currencies may also rise or fall as a result of currency fluctuations. So-called synthetic bonds are calculated to reflect the performance of government bonds in a fixed maturity range. In each case, the most "suitable" real federal bond at the relevant time is used as a reference for the yield opportunity of the synthetic bond. The development of the expected yield to maturity is shown under the following conditions: servicing of interest payments and redemption in accordance with the terms and conditions and holding until maturity. In this respect, it is a yield opportunity. The yield opportunities reflect the different risk assessments of the investors for the respective products or countries (higher yield opportunity=higher risk assessment). The synthetic bonds cannot be purchased and therefore do not include any costs. In the case of currencies and commodities, acquisition and/or custody costs incurred are not included.

UniCredit S.p.A.
The Investment Institute
by UniCredit

Address
Piazza Gae Aulenti, 4
20154 Milano

Email
the-investment-institute@unicredit.eu
Online
www.the-investment-institute.unicredit.eu

Legal Notices

Glossary

Terms used in the report are available on our website: https://www.the-investment-institute.unicredit.eu/en/glossary.

Marketing Communication

This publication/video constitutes a marketing communication of UniCredit S.p.A., UniCredit Bank Austria AG, Schoellerbank AG and UniCredit Bank GmbH (hereinafter jointly referred to as the "UniCredit Group") is addressed to the general public and is provided free of charge for information only. It does not constitute investment recommendation or consultancy activity by the UniCredit Group or, even less, an offer to the public of any kind nor an invitation to buy or sell securities. The information contained herein does not constitute an investment research or financial analysis since, in addition to the lack of content, it has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and it is not subject to any prohibition on dealing ahead of the dissemination of investment research.

UniCredit Group, including all its group companies may have a specific interest in relation to the issuers, financial instruments or transactions detailed herein. Relevant disclosures of interests and positions held by UniCredit Group are available at: https://www.the-investment-institute.unicredit.eu/en/conflictsofinterest-positiondisclosures. Any estimates and/or assessments contained in this publication represent the independent opinion of the UniCredit Group and, like all the information contained therein, are given in good faith on the basis of the data available at the date of publication, taken from reliable sources, but having a purely indicative value and subject to change at any time after publication, on the completeness, correctness and truthfulness of which the UniCredit Group makes no guarantees and assumes no responsibility. Interested parties must therefore carry out their own investment assessments in a completely autonomous and independent manner, relying exclusively on their own considerations of the market conditions and the information available overall, also in line with their risk profile and economic situation. Investment involves risk. Before any transaction in financial instruments please refer to the relevant offering documents. It should also be noted that:

1. Information relating to the past performance of a financial instrument, index or investment service is not indicative of future results.
2. If the investment is denominated in a currency other than the investor's currency, the value of the investment can fluctuate strongly according to changes in exchange rates and have an undesirable effect on the profitability of the investment.
3. Investments that offer high returns can undergo significant price fluctuations following any downgrading of creditworthiness. In the event of bankruptcy of the issuer, the investor may lose the entire capital.
4. High volatility investments can be subject to sudden and significant decreases in value, being able to generate significant losses at the time of sale up to the entire capital invested.
5. In the presence of extraordinary events, it may be difficult for the investor to sell or liquidate certain investments or obtain reliable information on their value.
6. If the information refers to a specific tax treatment, it should be noted that the tax treatment depends on the individual situation of the customer and may be subject to change in the future.
7. If the information refers to future results, it should be noted that they do not constitute a reliable indicator of these results.
8. Diversification does not guarantee a profit or protect against a loss.

The UniCredit Group cannot in any way be held responsible for facts and/or damages that may arise to anyone from the use of this document, including, but not limited to, damages due to losses, lost earnings or unrealised savings. The contents of the publication – including data, news, information, images, graphics, drawings, brands, and domain names – are owned by the UniCredit Group unless otherwise indicated, covered by copyright and by the industrial property law. No license or right of use is granted and therefore it is not allowed to reproduce its contents, in whole or in part, on any medium, copy them, publish them and use them for commercial purposes without prior written authorisation from UniCredit Group unless if purposes of personal use only.

E 25/1

Information and data contained in this document is updated as of 16 July 2025.