GLOBAL EQUITY PERSPECTIVES 21 JULY 2025

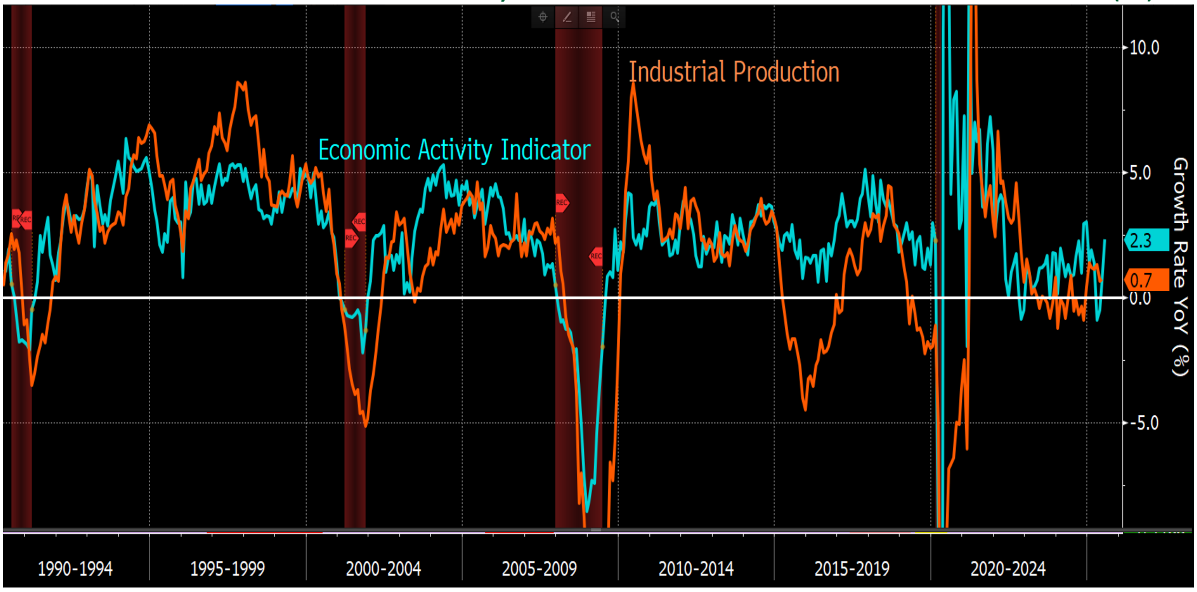
"The consumer is our boss, quality is our work, value for money is our goal."

Forrest Mars Sr

1. US ECONOMY

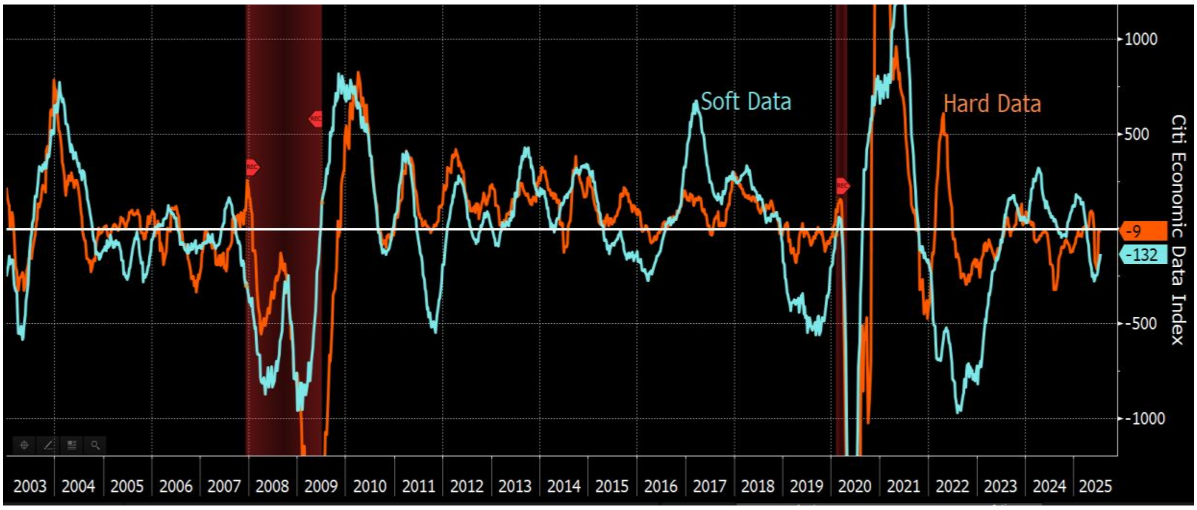
The US economy currently seems to be finely balanced:

Goldman Sachs Economic Activity Indicator vs Industrial Production Growth (%)



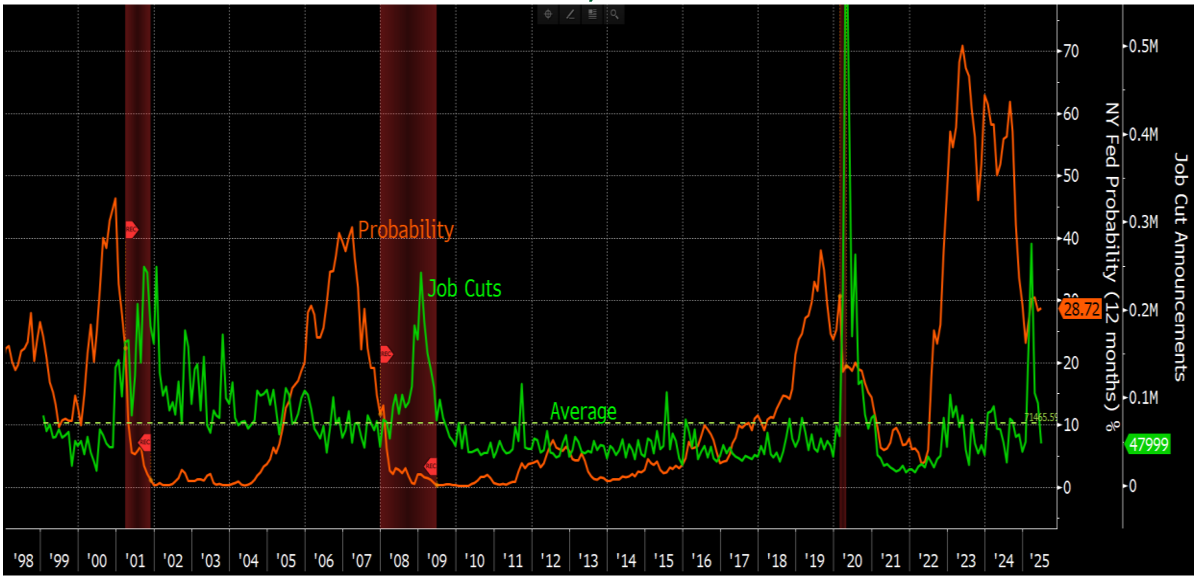
The Current Economic Activity Indicator (the blue line) in the above chart recently dropped into negative territory, but subsequently recovered into marginal positive territory. Strikingly, Industrial Production has been in negative territory for the best part of two years, but recently recovered into positive territory. We perceive it to be too early to be the result from tariff issues, and wonder whether the weaker Dollar currency has caused this effect.

Citi Hard & Soft Economic Data Indices



The backward-looking Hard Data Index (the orange line) in the above chart has similarly dropped into negative territory recently, and since recovered to an almost neutral level. The forward-looking Soft Data Index has been in negative territory for a while, and is currently turning slightly less negative.

US – NY Fed Recession Probability Index vs Job Cut Announcements



The New York Fed has sharply cut their probability for an imminent recession (the orange line), whilst still at an elevated level of 29%. Interestingly, following the sharp increase in DOGE job cuts, these numbers have dropped substantially back to below long-term average levels.

US – All Corporate Profits Before Tax (Growth %)

Whilst backward-looking, the above chart of all US Gross Corporate Profits has historically provided early indications of an upcoming recession. These profits (up to March 2025) have been growing at +6%, not yet indicating an imminent recession.

US GDP Growth Projections (%)

				Actual / Forecasts			Probability of Recession			35.0%
Indicator	Q3 24	Q4 24	Q1 25	Q2 25	Q3 25	Q4 25	Q1 26	Q2 26	Q3 26	Q4 26
Economic Activity										
Real GDP (YoY%)	2.7	2.5	2.0	1.9	1.3	1.0	1.4	1.3	1.6	1.9

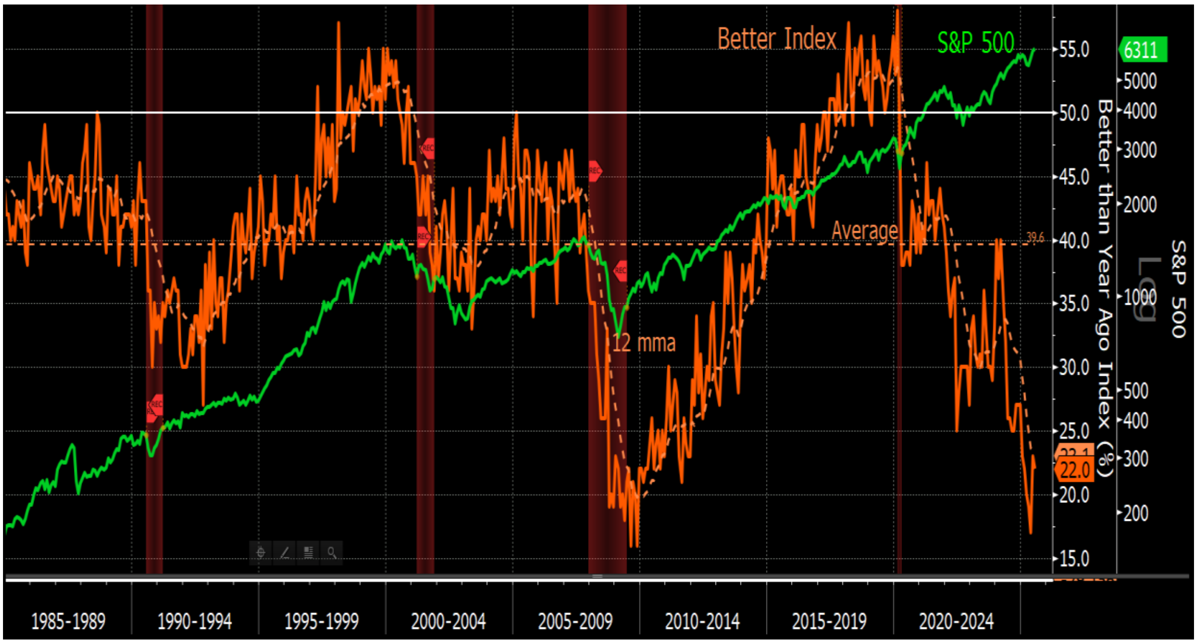
The above table reflects the average GDP projections of a panel of over 70 private-sector economists. They project a 'soft landing' scenario with continuing lower – though still positive – growth over the next 12 months, followed by an acceleration, with a 35% recession probability.

All said, the US economy is finely balanced, not ready for a material external shock. The finalisation of tariff negotiations can play a role in keeping it on course, or not.

2. US CONSUMER

The US economy remains highly dependent on their consumer. Currently, Retail Sales and Personal Consumption are growing at a healthy +3.3% and +4.5% pace respectively. Against this, the economic environment is dampening their confidence:

University of Michigan Index of Current Financial Position Compared to a Year Ago - % Better



The above index of consumers seeing their current financial position better than a year ago has recently reached a historic low with less than a quarter feeling positive. This reflects also in the trusted Conference Board Consumer Confidence Index that dropped to its long-term average (not in the chart). That said, this Feeling Better Index has historically indicated good stock market buying opportunities when it dropped materially, as indicated in the chart.

Conference Board Consumer Confidence Expectations Index

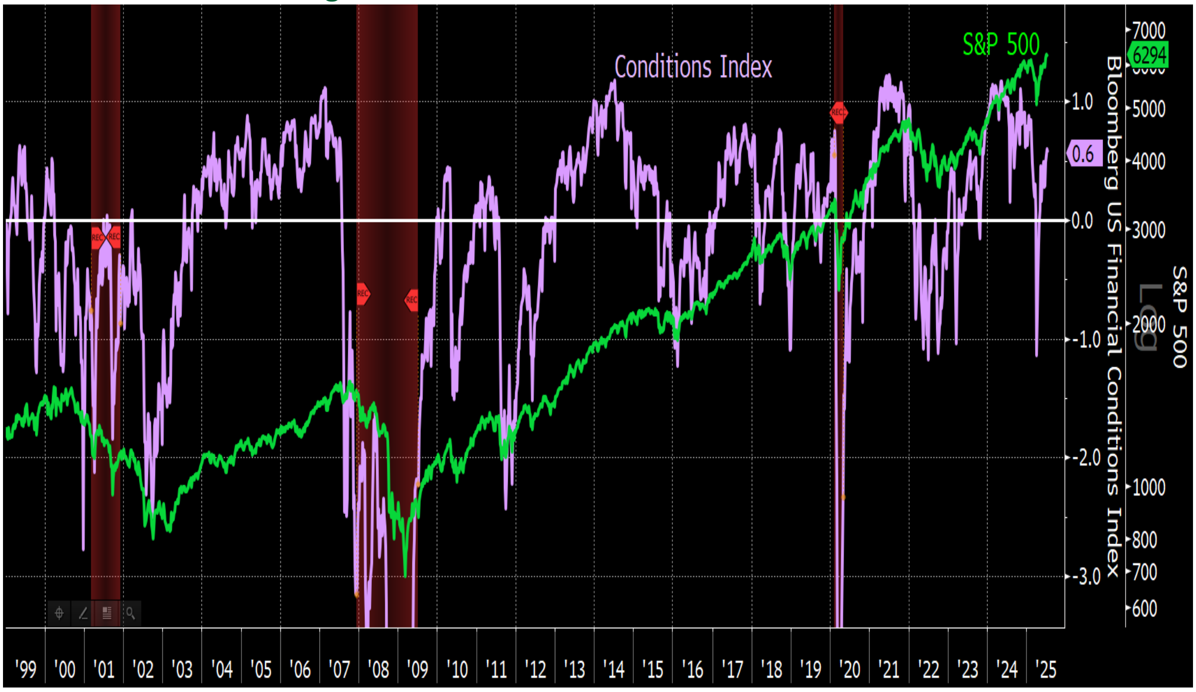
Similarly, the above Consumer Expectations Index has recently dropped to below its -1 Standard Deviation level – US consumers seem quite pessimistic. As with the previous chart, such extreme levels have historically indicated good stock market buying opportunities.

With US employment remaining healthy, consumer balance sheets being strong, and wage increases for lower / higher income groups at +3.9% / 4.8% respectively, the US consumer can hopefully keep supporting the economy, barring further shocks to their confidence.

3. FINANCIAL CONDITIONS

Despite continuing major uncertainties around the political environment, economic policy and economic conditions, financial stresses in the capital markets seem relatively subdued:

Bloomberg US Financial Conditions Index vs S&P 500 Index



The above US Financial Conditions Index has a strong correlation with the S&P 500 Index, indicating good buy and sell opportunities at its extreme levels. It is currently well above its long-term average, reflecting support for the US stock market. Relevant to this, US M2 Money growth is currently accelerating, growing at +4.5%. This in itself is supportive of capital markets.

Bank of America Global Financial Stress Index vs MSCI World AC Index

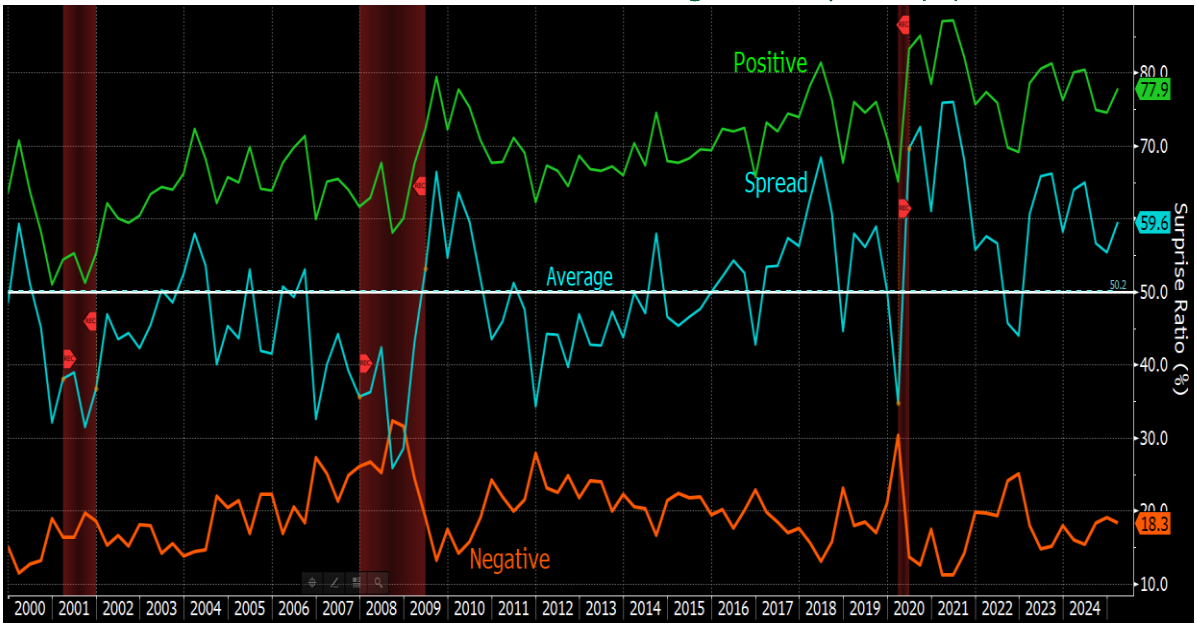
Likewise, on a global basis, the Financial Stress Index in the above chart (presented on an inverse scale) has historically indicated strong global stock market buy and sell opportunities as the index bottoms or peaks. It is currently below its long-term average, not reflecting any particular financial stresses.

It seems overall financial conditions remain supportive of stock markets.

4. EARNINGS

The US second quarter reporting season has started, with 12% of the S&P 500 members already having reported. The result thus far is strong, with Revenue and Earnings respectively +5% and +10%, with the Surprise Factors respectively at +2% and +7%.

S&P 500 Results – Positive vs Negative Surprises (%)



The above chart reflects Surprise Factors up to the end of the first quarter. 78% of members delivered positive surprises then, with a rising trend in positive surprises over time. Against this, only 18% of members delivered negative surprises, with an overall flat trend over time. Purely on this basis, it is clear that the US remains an attractive investment destination.

S&P 500 Index Earnings – Consensus 1- Year Forward Earnings ($)

The *Liberation Day* announcement in April damaged earnings expectations (see the green line in the above chart). These expectations bottomed out in May, but have subsequently resumed a strong upwards trend. The one-year growth expectation is over +8%. Interestingly, South Korean export data also supports the above trend (a large exporter to the US).

Investors have started to take a more positive view than in April on tariff effects on US earnings. Along with this, the Dollar devaluation is expected to start having its effect in the current reporting season, with management likely to be more constructive with their outlook. We expect the earnings season to again be supportive of the market.

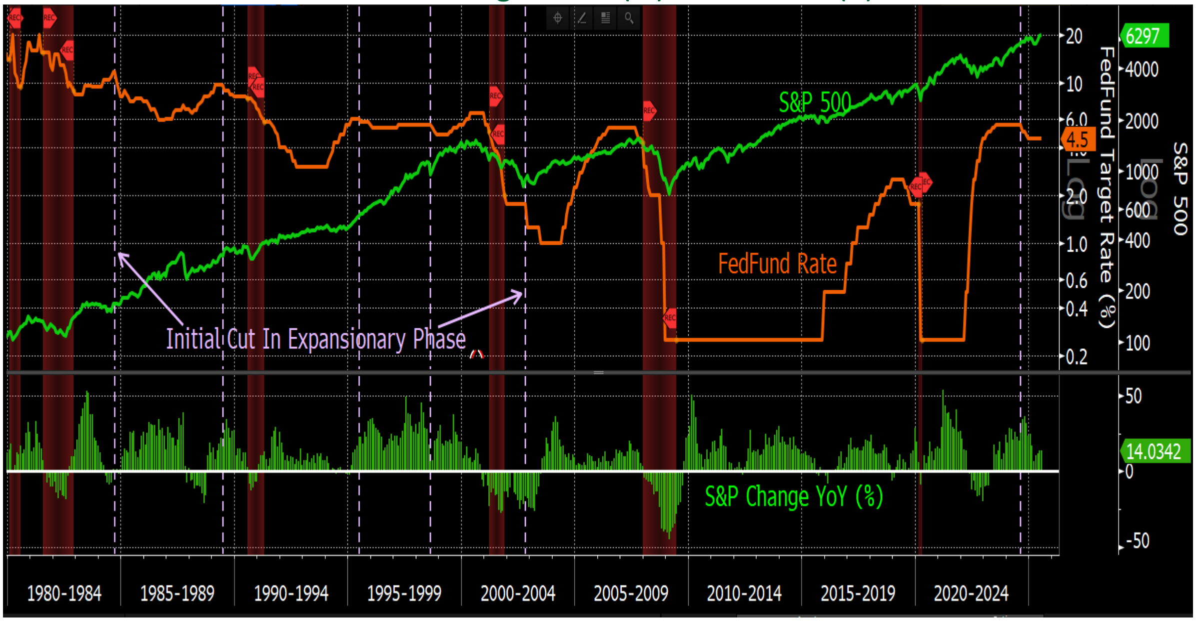
5. FED CUTS

There are four Federal Reserve (Fed) meetings left this year (they do not meet in November). With many discussions around the tenure of Chair Powell (who is less likely to further cut the target rate imminently) and his possible replacement, the next cut has become a focal point.

Fed Target Rate vs December 2025 Futures Rate (%)

The Futures market (the yellow line in the above chart) reflects the market expectation of a target rate of 3.9% at the end of this year. Data on the number of further cuts expected this year confirm two cuts (of 0.25% each). Also, the more recent trend of the Futures market (a rising trend in the rate expectation), indicates the market's perception that the US economy is staying its course reasonably well.

FedFund Target Rate (%) vs S&P 500 ($)



The vertical lines in the above chart indicate the timing of the first Fed rate cut in a new easing cycle. Considering the stock market performance (the green bars at the bottom of the chart), it is clear that rate cuts during economic expansionary phases are favourable to stock prices. Rate cuts do not support stock prices during economic contraction periods.

Logically, this is the fine line Chair Powell takes. Clearly, he still believes the economy remains on track, and on this basis, we expect a positive stock market result when he should announce the next cut.

6. TECHNICAL PICTURE

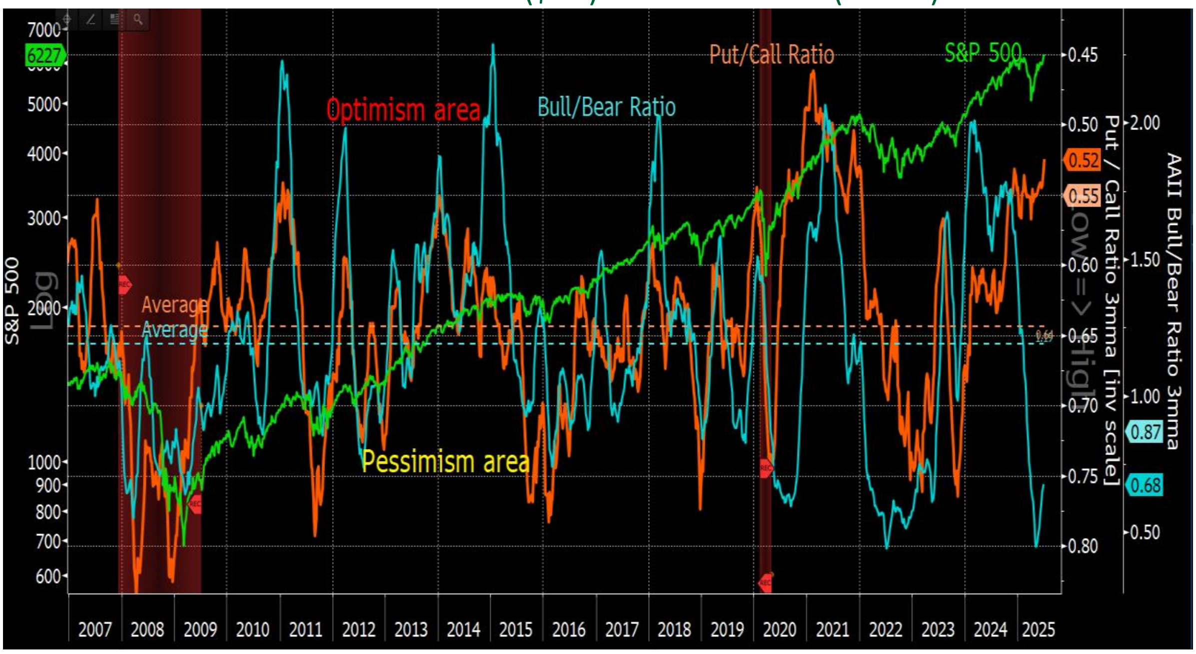
We consider a number of technical indicators:

S&P 500 vs 50- and 200-Day Moving Averages ($)

The S&P 500 has recently had its Golden Cross (the yellow arrow, the 50-day moving average crossing the 200-day moving average). This confirms a strong technical picture. Along with this, the S&P 500 is currently *only* 7% above its 200-day moving average (the bars at the bottom). As the orange arrows indicate, this level does not yet indicate material risk of a peak in stock prices.

In further considering the risk of an overheated market, we have assessed the percentage of members above their respective Upper Bollinger Bands, above their 70 RSI Levels and above their 52-Week Highs. On all three of these metrics the respective current readings are close to average, not indicating overheated situations. Along with this, both the Volume and Value of shares traded are in strong uptrends.

S&P 500 – Volume ($bn) & Value Traded (billion)



The Put/Call ratio in the preceding chart is currently at an extreme positive level (the orange line in the preceding chart). This reflects high optimism in the institutional market. The retail market (as reflected in the AAII Bull/Bear Ratio, the blue line) has recently turned more positive from an extreme negative level. The market is clearly not expecting an imminent recession but rather an improving economic outlook in 2026.

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