Binomial
Investor Relations

Growth & the Policy Crucible: Mapping a New Macro Order

Steering Through Volatility Toward Opportunity

Insights into our future investment strategies: navigating tariff-driven shocks, macro weakness, and structural themes to capture H2 2025 growth.

Binomial

Agenda

Executive Summary

Dynamic allocation through our diverse strategy sleeves in a turbulent market landscape

The Q2 Highlight Reel

- **Tariff "Liberation Day" flash crash –** April 2–3's surprise import levies sent U.S. futures tumbling, erasing over 6% off the S&P 500 intraday and nearly 20% off its all-time highs before a swift recovery.
- **VIX spike –** Fear surged as the VIX rocketed into the 50s, its highest levels since late 2024, underscoring the speed of risk repricing across assets.
- **Fed on hold –** The Fed kept rates at 4.25–4.50% at both its May 7 and June 18 meetings, stressing that trade-driven shocks could delay further disinflation.
- **China's fiscal push –** Beijing approved ¥1.3 trillion in ultra-long treasury bonds and boosted local-govt. special-debt issuance to ¥4.4 trillion, aiming to stabilize growth amid external headwinds.
- **ECB's muted outlook –** Spring projections cut euro-area GDP growth for 2025 to just 0.9% and forecast sub-2% inflation by year-end, keeping the ECB sidelined as hoping rate cuts show effects.
- **Equities dip & rebound –** The S&P 500 reversed an early-April ~20% drawdown to finish modestly positive by the end of June, powered by classic buy-the-dip flows and changing tariff deadlines.
- **Bond-market whipsaw –** Long term rates shot up to over 5% as Moody's downgraded U.S. debt to Aa1, and foreign Treasury holdings dipped—creating intense volatility in duration and credit.
- **Crypto comeback –** Bitcoin rebounded over 15% from its April lows into mid-June and stablecoins received a large nod from the government, solidifying digital assets' growing role in our economy
- **Dollar weakness –** The DXY slid from near 102 to about 98.2 by June 23, marking its steepest two-month decline since 2002 as global investors rebalanced.
- **Middle East flashpoint –** U.S.–Israeli strikes on Iranian facilities and threats to close the Strait of Hormuz drove Brent toward $80/bbl, followed by a sharp drop after a ceasefire was reached.

H1 2025 was a chaotic period defined by sudden shifts in policy, extreme volatility and one of the largest market crashes and rebounds in history.

A review of our Q2 gameplan

H1 at Binomial was focused on dynamic allocation and agility across our strategy sleeves, as we aimed to capture value through shifting market regimes.

We began Q2 with a clear defensive bias, raising cash and reducing both core-equity and systematic-strategy exposures as trade-policy uncertainty and geopolitical risks intensified. Our models signaled a fragile regime, so we scaled back quant overlays in favor of targeted, high-conviction positions.

We redeployed into European and Japanese equities where central banks were on the cusp of easing and valuations looked more attractive. Within those markets, we favored dividend-paying defensives to help stabilize returns and investing in local currencies,EUR and JPY, anticipating a peak in U.S. real-rate differentials and overall USD turmoil.

On the fixed-income side, we moved into long-dated Treasuries for capital protection and encountered bond-market turbulence. We've since adjusted by trimming duration and adding short-dated positions and curve-steepeners to balance carry and downside coverage.

As tariff-driven volatility subsided in mid-May, we rotated into growth-oriented equities—chiefly AI-infrastructure names like semiconductors and data-center hardware—and increased exposure to energy through natural-gas producers and nuclear-focused utilities. We also tactically participated in selective post-IPO momentum opportunities where fundamentals justified the risk.

In June, renewed Middle East tensions reinforced the merit of our energy overweight and volatility strategies. We fine-tuned those hedges to capture asymmetric gains—employing convexity-focused instruments rather than outright directional bets—to protect and enhance returns during sudden market dislocations.

As a result of this dynamic allocation we were able to **finish the quarter up +12.15%** outperforming our benchmarks.

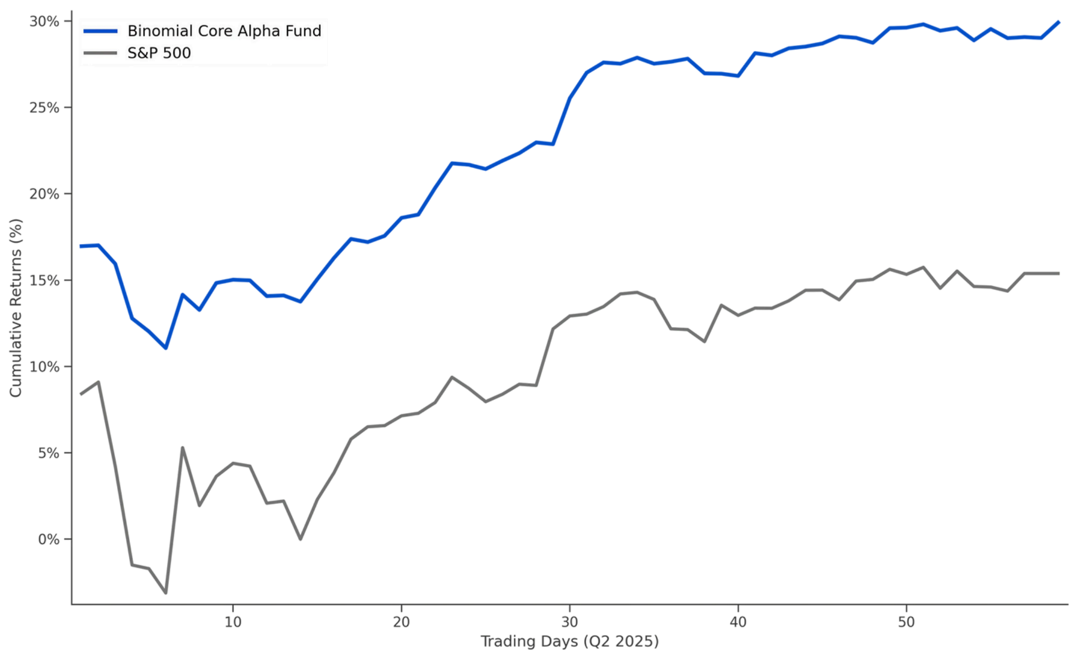

*Figure 1: Cumulative TWR of the Binomial Core Alpha Fund **(unaudited)** vs TWR of the S&P 500*

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An overview: H2 2025

Key political and macroeconomic trends - tariffs, monetary policy, government debt and fiscal spending

H1 2025 was defined by economic fragility, navigating renewed protectionism, persistent inflationary pressures, cautious monetary policy, and intensified geopolitical uncertainties.

In the first half of 2025, the global economy exhibited notable resilience amid a complex landscape characterized by intensified protectionism, shifting monetary policy trajectories, and pronounced distortions in macroeconomic indicators driven by aggressive tariff implementations and inventory front-loading.

The United States navigated a particularly turbulent economic period. Headline GDP in Q1 contracted by -0.5% annualized, marking the first negative quarter since early 2022. This contraction largely resulted from an extraordinary 38% surge in imports as businesses aggressively front-loaded goods ahead of sweeping tariffs implemented under the "Liberation Day" initiative, as detailed extensively in recent analyses from Yale's Budget Lab. These tariffs—encompassing a universal 10% import levy, along with targeted reciprocal tariffs reaching as high as 145% on certain Chinese goods—introduced significant cost inflation and logistical complexity, disrupting trade flows. Underlying domestic demand was moderate, with consumer spending growth slowing markedly to 0.5% from 4% the previous quarter, signaling caution among households facing rising prices and economic uncertainty.

Despite preliminary Q2 GDP growth estimates remain positive, suggesting a rebound to approximately 3%, economists, including those from Goldman Sachs and Kiplinger, emphasize that this apparent recovery was inflated by the continuation of tariff-induced inventory adjustments rather than sustainable economic strength. Averaging these quarters yields an underlying H1 growth figure closer to 1.4%. Concurrently, persistent labor market weakening—with unemployment claims reaching their highest levels since 2021 and projections indicating unemployment rates nearing 5%—further underscores the fragility of the U.S. economic backdrop. Inflation, particularly core Personal Consumption Expenditures (PCE), remained obstinately elevated around 3.5%, compelling the Federal Reserve to delay anticipated rate cuts until later in the year despite mounting political pressure.

Figure 2. U.S. Average Effective Tariff Rate Since 1790

Chart: Binomial Research, Source: The Budget Lab at Yale

- US > High volatility and relative underperformance
- Europe > Outperformed with capital rotating from US stocks
- Asia > Volatile growth due to trade war uncertainties countered by stimulus boost
- Bonds > Volatile as US debt issues shook confidence in credit ratings
- Commodities > Oil underperformed due to increased supply, Gold outperformed as uncertainty reached all time highs.

Europe's economic narrative in the first half of 2025 reflected parallel complexities. Eurozone GDP growth was modest at around 0.4% in Q1, bolstered predominantly by export front-loading activities to circumvent anticipated U.S. tariffs. Manufacturing sectors across core economies such as Germany, France, and Italy continued to exhibit weakness, with PMI indices lingering just below the critical 50 threshold, indicative of ongoing contraction. While Germany recorded a revised GDP expansion of 0.4% in Q1, driven primarily by automotive exports to the U.S., analysts from ING cautioned against overestimating this as sustainable growth, highlighting structural challenges including ongoing industrial stagnation and policy inertia. Inflation rates hovering close to the ECB's 2% target prompted cautious monetary easing, with a June rate cut of 25 basis points. Nonetheless, ECB officials signaled potential hesitation on further immediate reductions due to concerns over currency appreciation—the Euro having strengthened approximately 14% against the dollar in recent months—and persistent tariff uncertainty.

Asia's economic performance was distinctly varied. China's economy recorded approximately 4.7% growth in the first half, propelled by services and domestic consumption despite ongoing weakness in manufacturing output, as reflected by a marginally expansionary Caixin PMI of 50.4. External pressures, particularly export constraints from intensifying U.S. tariff actions, continued to exert downward pressure on Chinese manufacturers.

Japan emerged from a prolonged manufacturing contraction, driven by targeted investments in robotics and automation sectors, while South Korea stabilized following political continuity and recalibration in the semiconductor and technology sectors. Southeast Asia, notably Vietnam, remained resilient with GDP growth around 5.8%, sustained by robust foreign direct investment inflows and accelerated digital infrastructure development, reinforcing its role as a key beneficiary of global supply chain realignment. India maintained its regional leadership with GDP growth estimated at 6.4%, supported by buoyant factory activity, domestic consumption, and sustained infrastructural investments.

In Latin America, economic trajectories diverged notably. Mexico sustained growth momentum with an estimated GDP increase of 2.7%, driven by significant nearshoring investments, particularly in renewable energy and electric vehicle manufacturing sectors, thus solidifying its strategic role in North American supply chains. Brazil experienced marginal economic recovery, assisted by easing monetary policies, yet consumer confidence and spending remained subdued. Argentina continued facing pronounced macroeconomic instability amid stringent IMF conditionalities.

Emerging markets broadly benefited from a weakened U.S. dollar, experiencing its most significant half-year depreciation since the early 1970s, down approximately 10%. This facilitated improved external balances and stimulated portfolio inflows. Nevertheless, volatility associated with persistent trade policy uncertainty continued to pose substantial risks.

Past Performance

Global Indices (YTD%)

INDEX	PERFORMANCE
S&P 500	+5.39%
NASDAQ	+6.99%
EuroStoxx 50	+7.41%
DAX	+18.22%
Nikkei 225	+1.16%
^HSI	+23.37%
MSCI World	+8.78%

Global financial markets: Diverging Performance

In the US, equities experienced a significant ~20% drawdown, testing bear markets- in the crash triggered by the sudden introduction of sweeping "Liberation Day" tariffs by the Trump administration. Nevertheless, markets rebounded strongly throughout late spring and early summer, concluding the half-year at record highs. The Nasdaq rose approximately 6.99% year-to-date, driven by robust performances from major technology and AI-focused firms. The S&P 500 climbed 5.4%, propelled by strong corporate earnings in Tech and renewed bullish investor sentiment, while the Dow Jones increased 3.6%, supported by resilient industrial and value stocks. The S&P 500 reached a new record closing level of 6,204.95 on June 30, reinforced by a bullish "golden cross" technical signal occurring in early July. IPO activity also remained strong, signaling confidence as institutional investing remains robust- with the Nasdaq leading listings and raising approximately $21.3 billion compared to NYSE's $8.7 billion.

Past Performance

Global Sectors (YTD%)

SECTOR	CHG%
Technology	+7.71%
Financials	+15.93%
Energy	+3.56%
Utilities	+15.63%
Real Estate (USA)	+2.53%
Consumer Disc.	+2.66%
Consumer Staples	+9.34%
Materials	+11.15%
Healthcare	+1.28%

In Asia, markets exhibited diverse trends. Hong Kong's Hang Seng Index surged by around 21%, buoyed by substantial mainland inflows totaling approximately $90 billion and a recovery in investor confidence. In contrast, mainland Chinese equities remained mostly stagnant, restrained by persistent deflation fears and subdued investor sentiment. Japan's Nikkei ended the half roughly flat, successfully recovering earlier losses thanks to support from the Bank of Japan and strength from exporting sectors. Meanwhile, South Korea's KOSPI recorded a gain of approximately 6%, driven largely by a rebound in semiconductor exports.

European equity markets showed moderate growth of around 7%, bolstered by significant gains in defense stocks, which surged approximately 70% due to increased NATO rearmament initiatives. The luxury goods sector also demonstrated resilience, alongside supportive monetary policy from the European Central Bank.

Commodity markets reflected considerable geopolitical and macroeconomic tension. Gold prices surged approximately 25%, approaching $3,300 per ounce by the end of H1, driven by rising demand for inflation hedges and safe-haven investments. Oil markets overall underperformed due to increased US production under the Trump administration and OPEC supply increases, however saw notable volatility, briefly surpassing $80 per barrel in mid-June due to heightened tensions between Israel and Iran before stabilizing near $68–69 per barrel as normal market conditions returned.

The VIX index, representing market volatility, spiked significantly during the April tariff shock, briefly rising above 50 before gradually normalizing to around 18 by the end of June as investor confidence returned.

Bond markets also underwent substantial volatility. The 10-year Treasury yield briefly dropped below 4% in early April before spiking sharply to around 4.4–4.5% by late June, reflecting heightened concerns about government debt, tariffs and fiscal sustainability. The yield curve flattened considerably during this period. Amid these developments, the Federal Reserve maintained rates, postponing anticipated cuts due to persistent inflationary pressures.

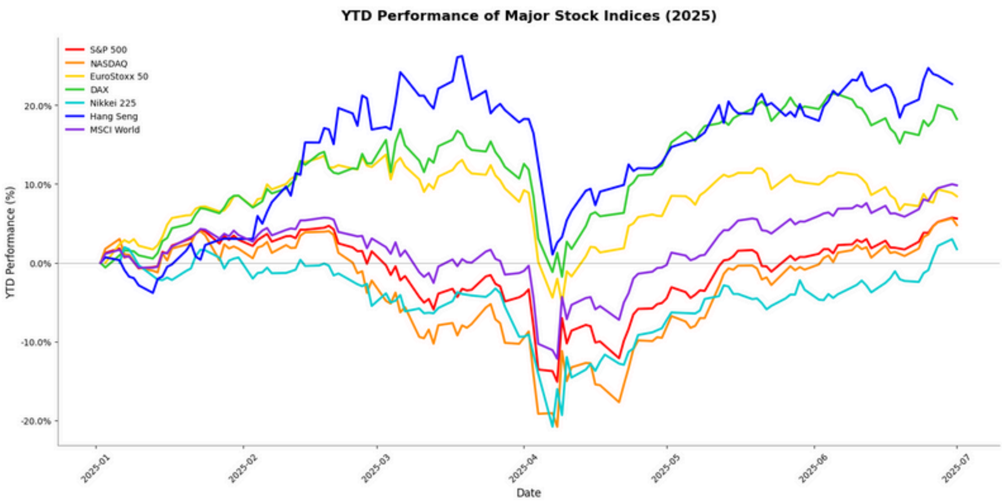

Figure 3: Chart: Binomial Research, Source: Yahoo Finance

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Macroeconomic Forecast

Overview: Global Outlook

In the second half of 2025, we expect global macro conditions to be shaped by U.S.-led policy disruptions. A surge in tariffs and expansive fiscal spending under the “Big Beautiful Bill” are fueling inflation, lifting bond yields, and increasing recession risk. We now assign a 30–40% probability to a mild U.S. downturn, up from 5–10% earlier this year. Still, resilient household and corporate balance sheets, combined with continued investment in AI infrastructure and domestic manufacturing, should help absorb part of the shock. Monetary policy is likely to remain cautious, with only limited easing expected as the Fed balances inflation pressures against slowing growth.

Outside the U.S., we see more stable dynamics. In Europe, disinflation is opening room for rate cuts, while targeted public investment is supporting industrial activity in Germany and the Nordics. In Asia, China, India, and SE Asia continue to benefit from strong domestic demand and global supply chain realignment. Japan is experiencing a gradual recovery supported by wage growth, fiscal stimulus, and increased CapEx in automation and semiconductors, with the BoJ moving slowly toward policy normalization. Latin America, led by Mexico and Brazil, is capitalizing on nearshoring trends and rising investment in manufacturing and logistics. While macro risks remain concentrated in the U.S, the global backdrop is more balanced, underpinned by regional policy support and structural investment flows.

De-regulation, tax reductions, and rate cuts, combined with technology-driven productivity in U.S. industries, are expected to sustain economic growth despite ongoing geopolitical and policy uncertainties

Expectations

Core CPI (%)

	2024	2025
USA	2.7%	2.8%
Eurozone	2.4%	1.9%
Germany	2.5%	2.3%
Japan	2.5%	2.2%
China	0.5%	0.4%

United States — The Case for a Resilient Slowdown

The global economic outlook for the second half of 2025 is being shaped decisively by the United States. The U.S. economy has reached a critical inflection point, caught between the powerful crosscurrents of a significant, policy-induced shock and resilient domestic fundamentals. Our base case forecast is for a slowdown, not a recession. We project 1.6% real GDP growth for 2025, supported by a robust private sector that will bend but not break under the weight of trade-related headwinds. These headwinds will, however, manifest as a temporary stagflationary impulse, and we forecast headline CPI will average 2.8% in 2025. This environment will compel a cautious Federal Reserve, and we expect the central bank to execute two 25-basis-point rate cuts in the second half of the year, bringing the federal funds rate to a terminal range of 4.00-4.25%. The durable strength of U.S. household and corporate balance sheets is the foundation of our no-recession call, the implications of which will ripple through the global economy, as subsequent sections on Europe and Asia will explore.

The dominant macroeconomic narrative for 2025 is a growth slowdown engineered not by a cyclical turn in the business cycle, but by deliberate policy choices. The implementation of a baseline 10% tariff on all imports represents a structural shock to the economy, creating a dual-sided problem for policymakers. On one hand, the tariffs function as a direct tax on imported goods, creating a classic cost-push inflation dynamic that complicates the Federal Reserve's price stability mandate. On the other hand, and perhaps more consequentially, the policy introduces a significant "uncertainty tax" on the economy. In line with real options theory, where firms delay irreversible investment decisions in the face of heightened uncertainty, we are seeing evidence of this chilling effect on capital expenditures and hiring plans. This is the primary driver of our forecast for sub-trend growth and is projected to subtract approximately 0.8 percentage points from GDP over the next year.

Despite these formidable headwinds, the U.S. private sector remains sufficiently robust to prevent a full-blown recession. This resilience is multifaceted, anchored by the underlying health of both household and corporate balance sheets. The aggregate strength of the consumer, for instance, masks a significant "K-shaped" divergence. While lower-income households face pressure from exhausted savings and high interest rates, the affluent and middle-income cohorts—who drive the vast majority of spending—remain in a strong financial position, supported by a tight labor market and significant wealth effects. This bifurcation explains the perplexing disconnect between plummeting consumer sentiment surveys and relatively stable "hard" spending data. This resilience is mirrored in the corporate sector, which is displaying a remarkable fortitude that belies the macroeconomic pessimism.

Expectations

Economic Growth, GDP (%)

	2024	2025
World	3.1%	3.2%
USA	2.7%	1.6%
Eurozone	0.7%	1.0%
Switzerland	0.9%	1.1%
France	1.2%	1.2%
Japan	-0.1%	0.8%
China	4.9%	4.3%

A striking "CEO Confidence Gap" has emerged in recent surveys: while optimism about the national economy has collapsed, a robust 58% of leaders remain optimistic about their own company's performance. This suggests business leaders see continued strength in their own order books and are not yet planning the widespread retrenchment that defines a recession. This micro-level confidence is corroborated by forward-looking indicators of corporate profitability. Morgan Stanley's Earnings Revisions Breadth (ERB) has staged a sharp V-shaped recovery from its April lows, signaling that initial fears over profit damage from the trade conflict are fading and that the underlying earnings power of the S&P 500 remains intact.

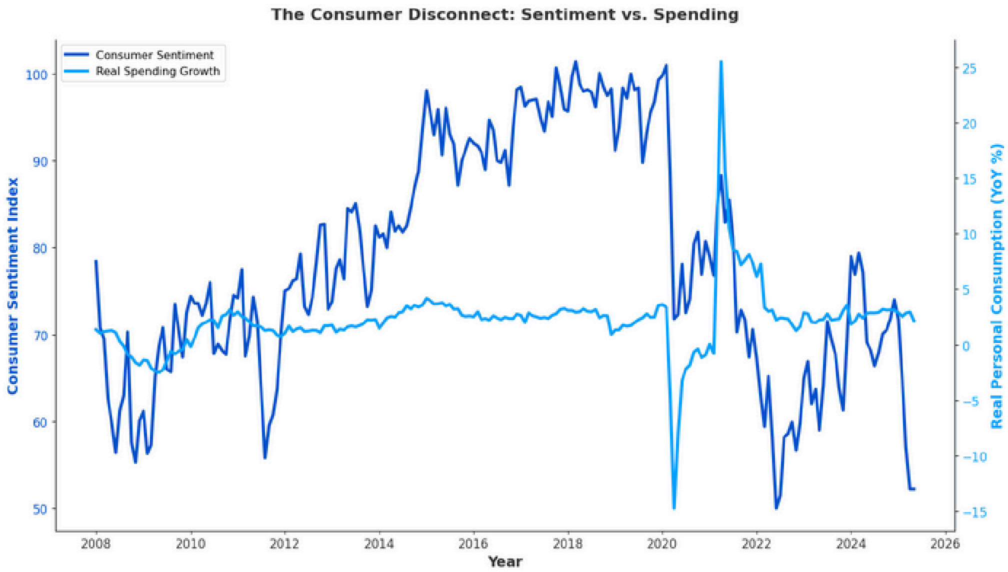

Figure 4: Chart: Binomial Research, Source: FRED St. Louis

Navigating the current environment requires synthesizing a range of conflicting data points. One of the most telling contradictions is the Great PMI Divergence. The trade-sensitive ISM Manufacturing PMI remains in contraction (49.0), reflecting the pessimism of large, multinational firms. In stark contrast, the more domestically focused S&P Global US Manufacturing PMI surged to a three-year high (52.9). This divergence provides clear evidence that while the "uncertainty tax" is heavily impacting a specific segment of the economy, underlying domestic activity remains more resilient than headline numbers suggest. Market psychology provides another key insight. The resilience of equity markets suggests investors are not taking the most extreme policy threats at face value, a phenomenon dubbed the "TACO" (Trump Always Chickens Out) theory. This implies that the market is pricing in a scenario where aggressive posturing is ultimately followed by negotiation and moderation. From a financial perspective, this means the risk premium attached to the most severe tariff scenarios is not fully priced in. While this supports asset prices in the near term, it also creates an asymmetric risk profile, with significant downside potential if this market-implied assumption proves incorrect.

Expectations

Policy Rates (%)

	2024	2025
USA	4.50%	4.00%
Eurozone	3.00%	1.75%
Japan	0.25%	0.75%
China	3.10%	2.75%

The Federal Reserve's reaction function is the critical variable that will resolve these competing pressures. The central bank is caught between its dual mandates of price stability and maximum employment. A premature or aggressive rate-cutting cycle could un-anchor inflation expectations, while holding rates too high for too long could needlessly tip the economy into recession. Our forecast for two rate cuts beginning in the second half balances these risks. We believe the Fed will tolerate a temporary, tariff-induced inflation overshoot as long as growth is slowing, a key dynamic that will allow it to provide some support to the economy without sacrificing its credibility on inflation.

This policy divergence, where a cautious Fed contrasts with more aggressive easing cycles expected elsewhere, underpins a strong consensus for U.S. Dollar weakness in the second half of the year. The narrative of "fading U.S. exceptionalism" is taking hold, with major institutions now explicitly bearish on the dollar. This weaker dollar is expected to act as a crucial "safety valve" for the global economy, easing financial conditions for emerging markets and boosting returns for U.S. investors in foreign assets.

United States — The Recession Argument

While our base case remains a resilient slowdown, a comprehensive risk assessment requires a rigorous examination of the arguments for a U.S. recession. This analysis is twofold: first, we consider the cautionary signals flashing from traditional, late-cycle indicators. Second, we apply a novel, proprietary framework that we use internally to provide a more holistic measure of systemic risk.

The Traditional Case: A Late-Cycle Diagnosis

The classical argument for a recession is grounded in the theory of late-cycle dynamics, where the cumulative effects of monetary tightening and economic imbalances begin to manifest sequentially across different sectors. Historically, this process begins with a downturn in interest-rate-sensitive sectors, followed by a softening labor market and a deterioration in confidence, ultimately leading to a contraction in broad economic activity. Several key indicators suggest the U.S. economy is now exhibiting these characteristics.

First, the most interest-rate-sensitive sectors are showing clear signs of strain. The housing market, a critical leading indicator, is weakening. According to the U.S. Census Bureau, building permits—a forward-looking measure of construction activity—fell 2.0% in May. This was followed by a sharp 9.8% plunge in actual housing starts, which hit their lowest level since the early months of the pandemic in 2020. This indicates that builders are pulling back on future projects in response to elevated mortgage rates and waning buyer demand.

Traditional indicators are indicating a slowdown in the economy and a slowing job market despite the recent positive reports, signaling that we are near the peak on the economic cycle

Second, the labor market is showing early signs of softening. While headline unemployment remains low, high-frequency data is flashing warning signs. According to the Department of Labor, initial jobless claims for the week ending June 28, 2025, while down slightly, remain at an elevated level of 233,000. More importantly, the four-week moving average for continuing claims has risen to its highest level since late 2021. This is a critical signal, as it suggests that individuals who lose their jobs are finding it harder to secure new employment, a classic precursor to a rise in the overall unemployment rate.

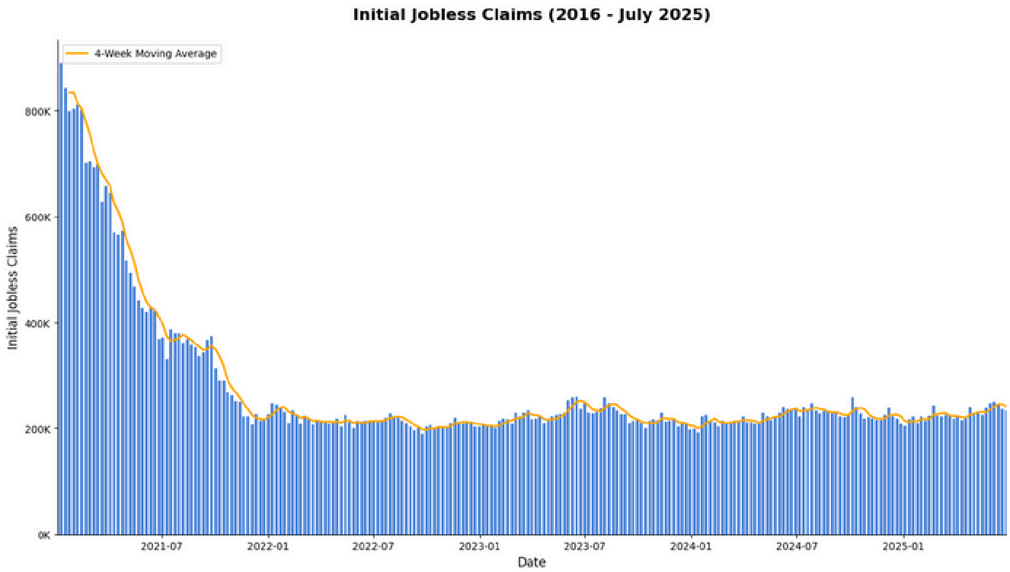

Figure 5: Chart: Binomial Research, Source: FRED St.Louis

Third, confidence is being actively suppressed by policy-related uncertainty, creating a tangible drag on growth. The Economic Policy Uncertainty Index surged to near-record levels in the first half of 2025, reflecting intense business concern over trade policy. This is significant because high uncertainty has a chilling effect on the economy, causing both corporations and consumers to delay major spending and investment decisions in line with "real options" theory. This creates a drag on growth that is independent of underlying fundamentals.

Finally, the economy is showing signs of entering a depreciation cycle for both physical and financial assets. Corporate profits, a key leading indicator of business investment, showed a negative inflection point, with profits from current production falling 2.3% in the first quarter of 2025, according to revised data from the Bureau of Economic Analysis. While overall profit levels remain high, this emerging profit margin compression, driven by rising input costs, signals a potential pullback in corporate spending across the broader economy. However we believe that as the current trade war calms down this trend could swiftly reverse.

The novel recession indicator ‘RFI’ indicates that the economy is in a stressed zone however not at a critical point, assigning a moderate probability for a recession over the next 12 months.

A Novel Approach: Recession Field Intensity

In contrast to the traditional, siloed approach, we supplement our analysis with an internal model based on the Quantum Electro Macroeconomic Field Theory (QEMFT), a framework developed by M. Abushaqra. This innovative model, detailed in the author's 2025 working paper, diverges from classical methods by treating the economy as a dynamic field. The core principle is that recessions are not caused by a single indicator failing, but by the accumulation of systemic stress across different economic domains. QEMFT quantifies this total stress into a single, unified Recession Field Intensity (RFI) score.

The RFI calculation is a transparent, three-step process. First, it captures data from three diverse areas: the unemployment rate (labor market), the yield curve spread (financial conditions), and consumer spending growth (consumer health). Second, it normalizes each indicator onto a common 0-to-1 "stress scale," where 0 represents minimal stress and 1 represents maximum stress. For example, very low unemployment would score near 0, while very high unemployment would score near 1. Finally, the RFI is calculated as the simple average of these three normalized scores. The result is a continuous, real-time measure of the entire macroeconomic field's health. Applying this framework to the most recent real-world data provides a more holistic interpretation.

- In March 2025, the model calculated an RFI of approximately 0.29.
- Following the announcement of widespread tariffs in April 2025, the RFI rose to approximately 0.32, correctly identifying the increase in systemic stress and crossing the model's "early warning" threshold of 0.30.
- By May 2025, the RFI subsided slightly to around 0.27, indicating that the initial shock was absorbed without causing a systemic collapse.

According to the QEMFT framework, an RFI value above 0.50 is the critical threshold that signals a high probability of recession. The recent readings, while showing elevated stress, remain well below this critical alarm point. Therefore, the QEMFT interpretation is that while the economy is experiencing heightened fragility, the macroeconomic field has not yet reached a point of critical distortion that would precede a downturn.
Our confidence in this novel approach is grounded in its robust historical performance. As detailed in the research paper, backtesting over a 55-year period shows that the QEMFT model has an 86% hit rate in predicting recessions with a false alarm rate of just 12%—metrics that demonstrate a significant outperformance compared to traditional single-indicator models. This allows us to look beyond the noise of individual indicators and focus on a more reliable measure of systemic risk, which currently supports our base case of a slowdown, not a recession.

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Eurozone: A Two-Speed Recovery Under Pressure

The Eurozone is experiencing a fragile, two-speed recovery supported by domestic demand and new investments in defence and data centers

The Eurozone economy is forecast to continue its modest recovery in the second half of 2025, though it remains fragile and exposed to external headwinds, primarily the policy-induced slowdown in the United States and ongoing trade uncertainty. We project real GDP growth of 1.0% for the year, a sluggish but positive expansion that masks significant underlying divergence. The recovery is notably two-speed: services-oriented economies are showing resilience, buoyed by a summer tourism season and a gradual rebound in real household incomes. In contrast, the manufacturing sector, particularly in its industrial heartland of Germany, continues to struggle under the weight of subdued global goods demand and stiff competition from China. However, this industrial weakness is being partially offset by new growth drivers. A significant increase in defence spending, driven by commitments to meet the 2% of GDP NATO target, is providing a direct fiscal impulse to the industrial base.

Simultaneously, a powerful new investment cycle in digital infrastructure, particularly for AI-driven data centers, is creating strong demand for construction, high-tech hardware, and energy infrastructure. Despite these pockets of strength, the key driver of the bloc's growth remains domestic demand, supported by a labor market that has remained surprisingly robust, preventing a sharper downturn.

The inflation outlook is the primary catalyst for the European Central Bank's policy path. The disinflationary process is well-advanced, and we forecast core HICP inflation to reach 1.9% by year-end, effectively hitting the ECB's 2% target. The challenge for the "last mile" of disinflation comes from the services sector, where price growth remains sticky due to persistent wage pressures from multi-year collective bargaining agreements. This is offset by outright deflation in goods prices, which have cooled significantly. This dynamic provides the ECB with a clear justification to diverge from the more hawkish stance of the U.S. Federal Reserve, which must contend with tariff-induced price pressures.

With inflation largely under control and a weak growth outlook, the ECB's focus has firmly shifted to providing support for the flagging economy. The easing cycle that began in mid-2024 is expected to continue at a measured pace. We anticipate this will translate into a continued, gradual easing cycle, with the ECB's main deposit facility rate projected to reach 1.75% by the end of 2025. This measured approach is designed to provide necessary stimulus without risking a significant inflation rebound, a key policy divergence that will influence global capital flows.

Asia: A Story from Normalization to Robust Growth

Asia presents a divergent economic picture, with Japan cautiously normalizing policy amidst weak consumption, China grappling with structural headwinds and disinflation, while Southeast Asia remains a resilient bright spot driven by strong domestic demand.

Japan: Navigating a Delicate Normalization

Japan's economy is navigating a delicate balancing act in H2 2025, caught between the historic challenge of exiting decades of deflation and supporting a fragile domestic economy. We forecast modest GDP growth of 0.8%. This growth is primarily supported by resilient capital investment from large corporations and a slight boost from inbound tourism. However, the domestic engine of the economy, private consumption, remains weak. The persistent weakness of the yen, while a tailwind for some exporters' profits, continues to erode household purchasing power through higher import costs for food and energy, weighing heavily on consumer sentiment and real wages.
The key driver of policy is the outlook for inflation, which has shown signs of durability as the "virtuous cycle" of rising wages and prices takes hold. We project core CPI will remain above the Bank of Japan's (BOJ) target, at 2.2% for 2025. This sustained inflation is providing the BOJ with the confidence to continue its path of policy normalization. This is a multi-faceted process that extends beyond just interest rates. Following the end of negative interest rates earlier in the year, we expect the central bank to proceed with further cautious hikes, bringing the policy rate to 0.75% by year-end. This will likely be accompanied by a gradual tapering of its purchases of Japanese Government Bonds (JGBs), a crucial step in unwinding its massive balance sheet. The primary challenge for the BOJ will be to tighten policy enough to provide some support for the yen without derailing the fragile economic recovery.

China: Managing Structural Headwinds

China's economy in H2 2025 continues to grapple with significant structural challenges, most notably the protracted crisis in its property sector and persistently weak consumer confidence. We forecast GDP growth of 4.3%, a deceleration from the official ~5% target and a reflection of these deep-seated issues. Growth is increasingly reliant on a state-led industrial policy focused on the "new three" sectors (EVs, batteries, renewables), which is boosting exports but also creating trade friction. This stands in stark contrast to the domestic economy, where the ongoing property downturn—which has seen real estate investment contract for three consecutive years—has severely impacted private investment and consumer sentiment.

These deep-rooted demand-side weaknesses are creating significant disinflationary pressures. We project core CPI will be just 0.4% for the year, signaling underlying deflationary risk and industrial overcapacity. In response, we expect the People's Bank of China (PBOC) to maintain its easing bias to support the economy. However, policy will be targeted and measured, not a "big bang" stimulus, due to concerns over debt levels and yuan stability. We anticipate a mix of modest rate cuts, bringing the one-year medium-term lending facility (MLF) rate to 2.75%, alongside further reductions in the reserve requirement ratio (RRR) to encourage bank lending. The government's main challenge will be to manage an orderly deleveraging in the property sector while simultaneously shoring up domestic demand.

3

Policy and political shifts

- The new spending bill might cause permanently high rates and add to government debt.
- Tariffs are likely to be transitory as trade deals stack up.
- The new cuts to the IRA under the OBBB may support increased investing but inhibit energy dominance in the long run.
- The failure of the DOGE initiative signals that the government will look to different methods to balance the budget.

USA: From a Rocky Start to Normalcy

The U.S. economic outlook for the second half of 2025 is being defined by a significant and deliberate pivot in federal policy. The administration's agenda, centered on the "One Big Beautiful Bill" (OBBB), a tactical overhaul of trade relationships, and a new approach to regulation, creates a complex and volatile environment. While the initial shocks from these policies have created headwinds, our analysis suggests the economy is navigating a slowdown, not a recession. The core of this outlook rests on the expectation that the administration's aggressive initial actions, particularly on trade, will moderate over time and give way to a more pragmatic, pro-growth stance.

Fiscal Policy: The "One Big Beautiful Bill"

The centerpiece of the administration's agenda is the OBBB, a massive package that permanently extends the 2017 tax cuts while authorizing significant new spending on defense and border security. Our analysis indicates that this bill, contrary to administration projections, will have a significant negative fiscal impact and presents a considerable risk to long-term economic growth. The administration's case for the bill is that the bill will be fiscally positive and reduce the deficit by over $8T—is based on a supply-side theory that we find to be unsupported by historical precedent and economic modeling. The argument that the tax cuts will be self-financing through new investment and labor participation is, in our view, unrealistic and fails to account for the bill's negative effects on the debt and interest rates.

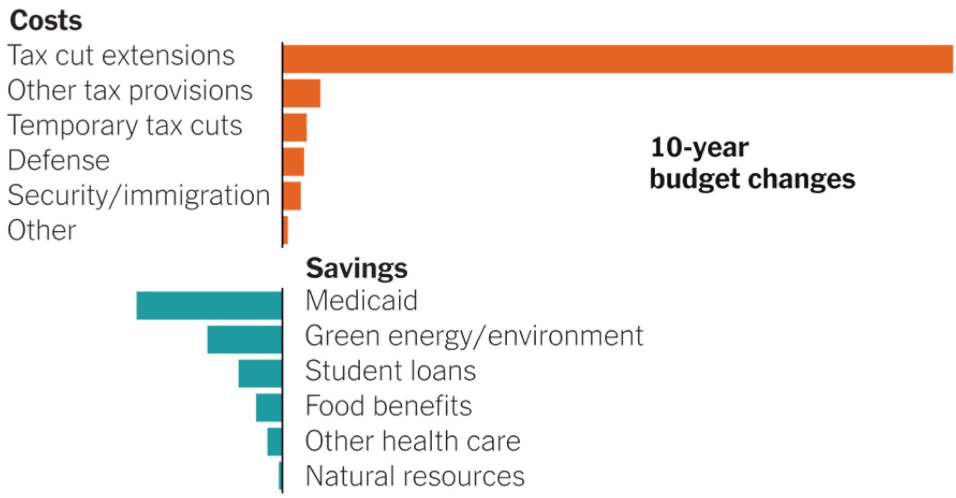


Figure 6: Chart: The Economist, Source: The Economist

As the OBBB gets passed through congress the government debt issue will get postponed setting up the bond market for weakness and acting as a tax on future generations.

Government Debt and the Fiscal Outlook

A direct consequence of the OBBB's expansive fiscal policy is a significant and rapid increase in the U.S. national debt. While the administration's CEA projects the bill will be deficit-reducing, this is a significant outlier. A consensus of independent analysts, projects the OBBB will add approximately $3.9 trillion to the national debt over the next decade. This sharp increase in borrowing places upward pressure on long-term interest rates. The primary risk associated with this rising debt is the "crowding out" effect, where higher government borrowing absorbs capital that would otherwise be available for private investment, potentially slowing long-term economic growth. However, from the administration's perspective, this is a calculated risk. The core of their economic strategy is a bet that the pro-growth effects of lower taxes and broad deregulation will stimulate the private sector sufficiently to expand the overall economy. Our slowdown thesis acknowledges the validity of the fiscal risk but aligns with the view that the economy has enough underlying momentum to absorb this fiscal impulse in the near term without tipping into recession, though it remains a key vulnerability for the medium-term outlook.

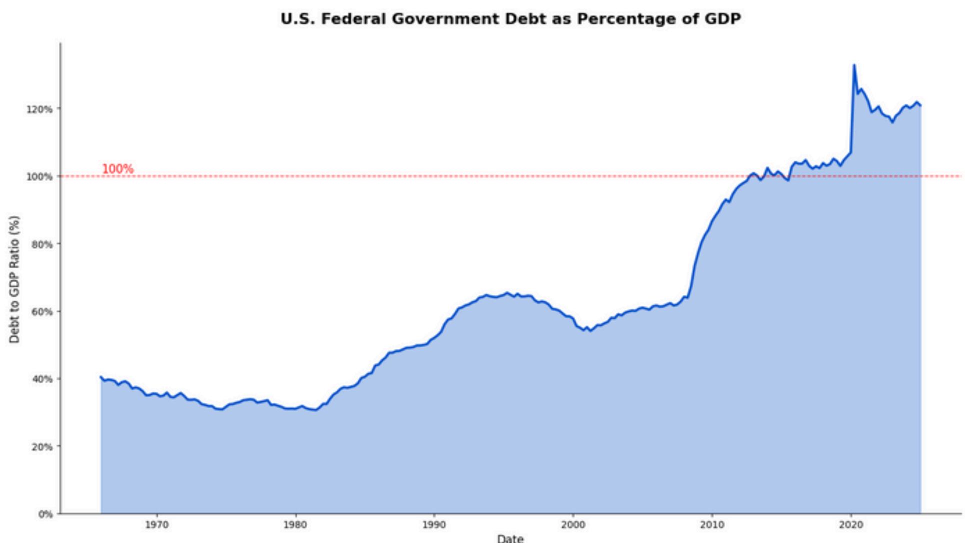


Figure 7: Chart: Binomial Research, Source: FRED

Trade Policy: From "Tariff Shock" to "The Art of the Deal"

The administration's trade policy has been the single largest source of economic volatility in 2025. The initial implementation of a baseline 10% tariff on all imports functioned as a significant global shock, with the Penn Wharton Budget Model estimating a potential 6% long-run GDP reduction if the policy were made permanent without offsetting agreements. However, our analysis suggests this initial "tariff shock" was not the endgame, but rather a tactical move to bring partners to the negotiating table. This "Art of the Deal" approach is already yielding results that mitigate the worst-case scenarios, including a new trade agreement with the U.K., ongoing strategic partnership talks with Vietnam, and a "tariff truce" with China that has provided significant relief to U.S. exporters. This strategic pivot from broad confrontation to targeted negotiation supports our view of a slowdown rather than a recession, as the emerging network of bilateral deals will likely reopen key markets and reduce input costs for U.S. businesses.

Industrial Strategy: A Philosophical Pivot

Sweeping policy shifts to the IRA with cuts on EV and solar mandates alongside broad deregulation will likely have initial expansionary effects but setback the US in the long term as solar energy declines.

A core component of the administration's agenda involves a philosophical pivot away from the direct-subsidy model of the Inflation Reduction Act (IRA) and the CHIPS and Science Act. The OBBB reverses many of the key tax credits for clean energy and semiconductors, a move that critics argue will create a significant negative supply-side shock. Analysis from think tanks like Energy Innovation projects that a full repeal of the IRA would reduce 2035 GDP by an estimated $250 billion and eliminate over 1.3 million jobs. The administration's counterargument is that the direct-subsidy approach leads to inefficient capital allocation. Instead, their strategy is to foster industrial growth through lower corporate taxes and broad deregulation, aiming to create a more favorable environment for all businesses to invest. While this approach forfeits the targeted gains of the previous industrial policy, its long-term success will depend on whether the broad-based incentives of the OBBB can generate a more powerful and sustainable wave of private investment than the direct subsidies they replaced.

Governance and Regulation: The DOGE Initiative

The administration's efforts to streamline government have had a rocky start. The high-profile Department of Government Efficiency (DOGE), initially championed by prominent allies Elon Musk and Vivek Ramaswamy, has been widely viewed as a failure. After a chaotic few months marked by public clashes with agency heads and an inability to produce meaningful cost savings, the initiative was quietly sidelined, and its most prominent external advisors, including Musk, have departed. Analysis from Citizens for Responsibility and Ethics in Washington (CREW) argued that DOGE's targeted cuts were disruptive, particularly at the IRS, where the firing of over 11,000 employees was projected to result in a loss of over $500 billion in uncollected tax revenue in the current year alone. The failure of DOGE suggests that achieving meaningful efficiency gains in the federal government isn't a viable route for efficiency, likely closing that door for the rest of Trump's administration.

Expectations

Fiscal Deficit, FY 2025 (%)

	2024	2025
USA	-6.6%	-7.3%
Eurozone	-2.8%	-2.7%
Germany	-2.1%	-1.9%
France	-6.1%	-6.6%
Japan	-6.0%	-4.0%
China	-13.2%	-15.5%

Europe: Getting in on AI and Defence

A clear policy divergence is opening between the Eurozone and the United States, driven by a fundamentally different inflation and growth outlook. With the disinflationary process well-advanced and core inflation forecast to continue moderating towards the ECB's 2% target, the European Central Bank (ECB) has the political and economic justification to focus on supporting a fragile economy. Unlike the U.S. Federal Reserve, which must contend with tariff-induced price pressures, the ECB's primary pressure is to avoid choking off a nascent recovery. We therefore expect the bank to continue its gradual easing cycle, with its main deposit facility rate projected to continue its downward path

This accommodative monetary stance is necessitated by the Eurozone's two-speed economy, for which we project a sluggish but positive expansion for the year. The services sector, particularly in Southern Europe, remains a bright spot, buoyed by a strong summer tourism season and the continued deployment of NextGenerationEU recovery funds. This is offset by a struggling manufacturing sector, especially in Germany, which is weighed down by weak global demand and stiff competition. However, new structural tailwinds are providing a crucial buffer, driven by two major EU-wide policy initiatives:

- **Strategic Autonomy in Defence:** The European Defence Industrial Strategy (EDIS), launched in early 2024, is now translating into tangible economic activity. This policy, a direct response to geopolitical shifts, aims to bolster the bloc's defence capabilities and reduce reliance on U.S. military hardware. The accompanying European Defence Industry Programme (EDIP) has begun to disburse its initial €1.5 billion to de-risk and incentivize joint procurement and production. This is providing a sustained fiscal impulse to the industrial base, creating durable demand for advanced materials, aerospace, and engineering.

- **Digital Sovereignty and Regulation:** The EU's landmark digital regulations are now in their full implementation phase, shaping investment across the continent. The enforcement of the Digital Markets Act (DMA) and the Digital Services Act (DSA) is forcing major tech companies to restructure their European operations. More importantly, the push for "digital sovereignty" is spurring a massive investment cycle in AI-driven data centers.

Asia: A Divergent Policy Landscape

Asia is undergoing a significant geopolitical and financial realignment, driven by a collective response to U.S. protectionism. The region's major powers are navigating distinct domestic policy paths, but a new, overarching trend has emerged: a strategic convergence between China, Japan, and South Korea aimed at insulating the region from U.S. policy volatility. This was crystallized at the recent trilateral summit, where leaders pledged to accelerate free trade negotiations and deepen cooperation on critical supply chains.

This political alignment is being accompanied by a coordinated financial strategy, with the region's central banks acting as "bond vigilantes" to exert pressure on U.S. fiscal policy. This coordinated strategy is multifaceted. The latest Treasury International Capital (TIC) data confirms a consistent decline in holdings of U.S. Treasuries by both China and Japan over the past year, a clear response to concerns over both the sustainability of U.S. fiscal policy and the weaponization of trade. This gradual but deliberate selling pressure exerts a subtle upward force on U.S. interest rates, acting as a market-based check on American fiscal policy. Within this new framework, each nation's domestic policies are also adapting and shifting in unique ways.

Emerging trade blocs and warming relations form in Asia amid trade tensions with the United States.

China's trajectory is being dictated by a politically engineered slowdown. The government's "three red lines" policy continues to weigh on the property sector, forcing a state-led pivot to the "new three" industrial sectors (EVs, batteries, renewables). This policy serves a dual purpose: achieving technological self-sufficiency to counter U.S. restrictions and positioning China as the industrial anchor of a new Asian economic bloc. The People's Bank of China (PBOC) is supporting this with a constrained easing cycle, using targeted tools like the real estate financing coordination mechanism while deliberately avoiding a large-scale stimulus. Its management of the yuan and its U.S. Treasury holdings are increasingly being deployed not just for domestic stability, but as tools in this broader geopolitical financial strategy.

In stark contrast, Japan is facing the political challenge of policy normalization. With inflation remaining above target, the Bank of Japan (BOJ) is gradually tightening, a move that is being coordinated with its strategic reduction of U.S. debt holdings to support the yen. This is occurring alongside a proactive industrial strategy centered on the Economic Security Promotion Act, which aims to strengthen domestic supply chains for critical technologies like semiconductors. This policy is no longer just about reducing dependence on the U.S. and China, but about deeper integration with regional partners like South Korea to create a resilient, high-tech Asian supply chain.

Meanwhile, Southeast Asia continues to be a primary geopolitical beneficiary of this great power competition. The region is leveraging the "China plus one" supply chain diversification trend through investor-friendly policies. Vietnam's Law on Investment and Indonesia's Omnibus Law on Job Creation are key examples of national policies designed to attract the wave of foreign direct investment from Chinese, Japanese, and Korean firms that are re-shoring and "friend-shoring" their operations within Asia, further cementing this new, integrated regional economic bloc.

4

Bond Markets - Safety in Coupons

US Bond Market

The bond market could experience prolonged weakness as government debt and credit reliability issues lead to bondholders demanding higher yields to compensate for risk.

The U.S. bond market is in the grip of a powerful structural shift. The dominant force is no longer the Federal Reserve's monetary policy, but rather the overwhelming fiscal pressure from an unsustainable trajectory of government borrowing. This has forced a fundamental repricing of U.S. sovereign risk, a process that will define the market landscape for the remainder of the year and beyond.

The scale of the fiscal burden is immense. The Congressional Budget Office's (CBO) March 2025 outlook projects federal debt held by the public will reach 100% of GDP in 2025, on a path to a record 107% by 2029. The practical consequence is a relentless firehose of new debt that the market must absorb. The U.S. Treasury's latest quarterly refunding announcement projects net borrowing of $554 billion for the third quarter alone. This supply glut is occurring at the precise moment that the United States has lost its pristine Aaa/AAA credit rating from all three major rating agencies, with Moody's delivering the final downgrade to Aa1 in May 2025. This forces a permanent, structural re-evaluation of U.S. Treasuries, compelling investors to demand higher yields as compensation for this newly formalized credit risk.

Binomial

Expectations

Bond Yields (%)

	2025
USA 2YR	4.30%
USA 10YR	4.50%
USA 30YR	4.90%
Germany 2YR	1.75%
Germany 10YR	2.65%
Japan 2YR	0.85%
Japan 10YR	1.35%

This dynamic underpins our forecast for a steeper U.S. Treasury yield curve. We expect the Federal Reserve, caught between slowing growth and sticky inflation, to deliver two 25-basis-point rate cuts in the second half of the year. This will bring the federal funds rate to a range of 4.00-4.25% and anchor the front end of the curve, leading to our year-end forecast for the 2-year Treasury yield of 4.30%.

However, these modest cuts will be insufficient to offset the powerful upward pressure on the long end of the curve, where the Fed has less control. The "term premium"—the extra compensation investors demand to hold long-term bonds—is expanding to reflect not just inflation uncertainty but also the escalating fiscal and political risks. This will keep long-term yields stubbornly high. We therefore project the benchmark 10-year Treasury yield will end the year at 4.50%, and the 30-year Treasury bond at 4.90%, resulting in a healthier, positively sloped yield curve that correctly prices the risks of holding long-term U.S. debt.

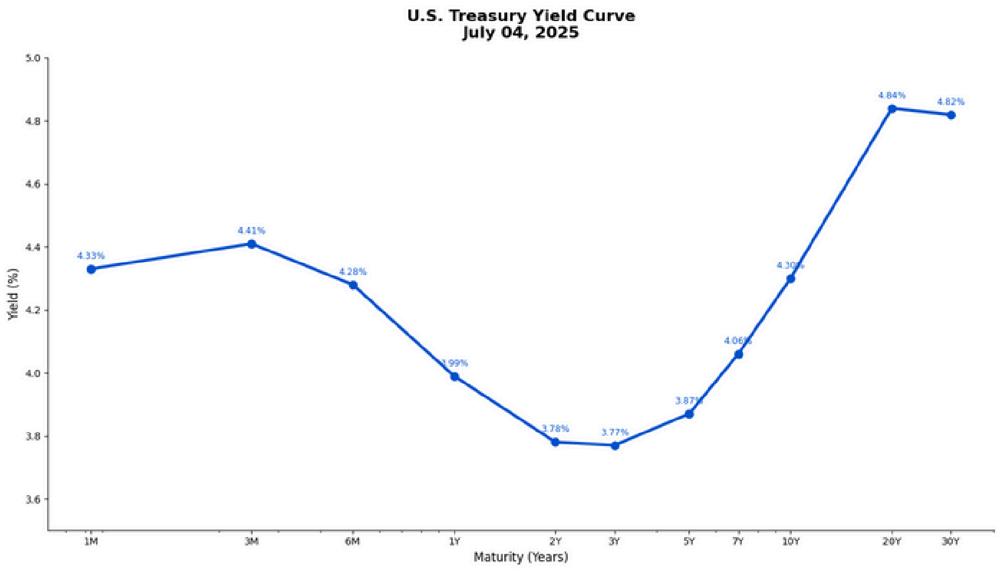


Figure 8: Chart: Binomial Research, Source: FRED

The European bond market is caught between a dovish, rate-cutting ECB pushing yields down and the gravitational pull of higher U.S. rates, creating a dynamic where yields remain low but capped.

EU Bond Market

The Eurozone presents the clearest policy contrast to the United States, creating a significant divergence in bond market performance. With a more benign inflation outlook and a weaker growth picture, the European Central Bank (ECB) has officially embarked on an easing cycle, cutting its key interest rate in June 2025. This dovish pivot provides a strong domestic tailwind for European sovereign bonds, putting downward pressure on yields. We project this will lead the 2-year German yield to fall to 1.75% by year-end. However, European bonds are not immune to the gravitational pull of higher U.S. rates, which will prevent a collapse in long-term yields. This tension informs our forecast for the 10-year German Bund yield to end the year at 2.65%. Furthermore, a weaker U.S. dollar provides a tailwind for foreign-denominated bonds like Bunds, as a depreciating dollar boosts the total return for U.S.-based investors, potentially driving further inflows.

The Asian bond market is bifurcated, with Japan's yields structurally rising due to the Bank of Japan's historic policy normalization, while emerging markets are poised to attract capital inflows driven by a weakening U.S. dollar.

Asian Bond Market

The Asian bond market outlook is highly bifurcated. The primary story is the Bank of Japan's (BOJ) historic pivot away from ultra-loose monetary policy. As the BOJ continues its gradual policy normalization with cautious rate hikes and a tapering of bond purchases, we expect the 2-year JGB yield to reach 0.85% and the 10-year JGB yield to rise to 1.35% by year-end. In contrast, other Asian markets remain sensitive to the Federal Reserve and the U.S. dollar. A weakening dollar provides a powerful tailwind for foreign-denominated bonds, as it boosts the total return for U.S.-based investors when converted back. This currency appreciation component makes local currency bonds in emerging Asia particularly attractive, driving capital inflows that can further compress local yields.

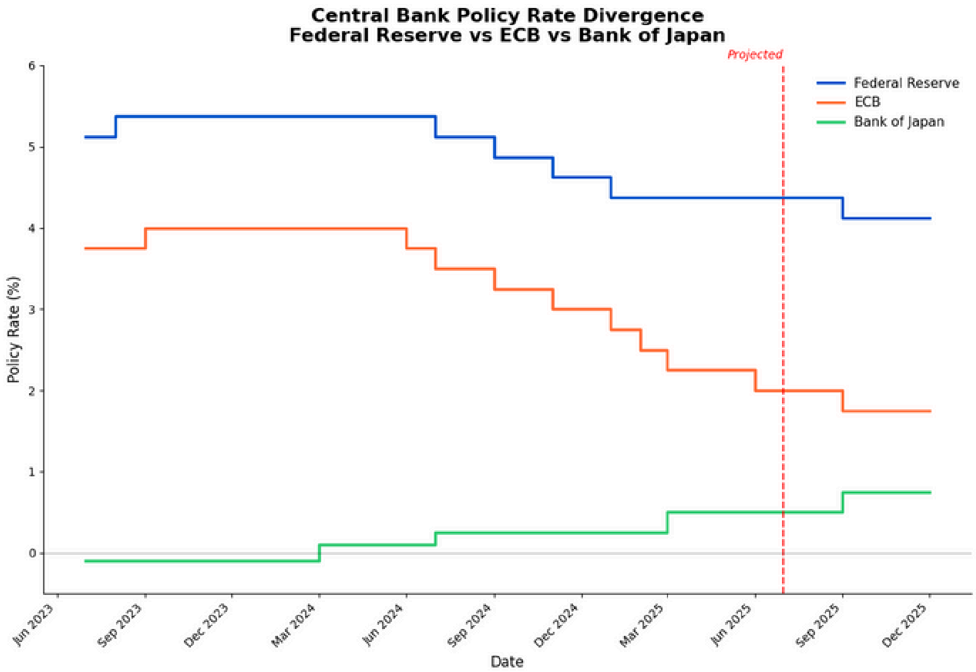


Figure 9: Chart: Binomial Research, Source: TradingView

5

Stock Markets - A Changing Landscape

Globally stock markets will continue their bull runs but in a more muted fashion fueled by increasing earnings and productivity gains but held back by trade tensions and policy.

Looking through the indices

Our H2 2025 outlook calls for a continued but weaker global equity bull market, underpinned by a new paradigm of technology-driven productivity and resilient corporate profitability. While the risk of intermittent volatility remains, driven by chronically high interest rates caused by government debt and the lingering threat of a policy-induced recession, the fundamental drivers of earnings growth remain intact. We are cautiously bullish on U.S. equities, forecasting the S&P 500 will reach 6,600 and the Nasdaq 100 will reach 22,000. We are initiating an Overweight recommendation on European equities, which are poised to benefit from a compelling valuation discount, targeted industrial policy, and a dovish central bank, with a year-end target of 5,600 for the Eurostoxx 50 and 12,600 for the SMI. We maintain a bullish stance on Asia, anticipating that a profound corporate governance revolution in Japan will drive the Nikkei 225 to 41,500, while targeted policy support in China will lift the Hang Seng Index to 26,500.

United States: American Exceptionalism On Course

The U.S. equity market is poised to continue its leadership, driven by a virtuous cycle of corporate dynamism and supportive liquidity. Our outlook is one of cautious optimism. The fundamental picture—defined by a structural surge in productivity, trade deals, resilient corporate earnings, and a reopening IPO market—remains strong enough to propel the market higher. However, this bullish case is tempered by tangible macroeconomic risks, namely the threat of chronically high interest rates if inflation proves sticky and the lingering possibility of a policy-induced recession. Our analysis indicates the underlying engine of the American economy is powerful enough to overcome these headwinds, but the path forward will likely be more volatile than in the first half of the year.

The Macroeconomic Bedrock: A Productivity-Led Expansion

The foundation of the U.S. bull case is the exceptional performance and adaptability of its corporate sector, which is creating a resilient, self-reinforcing growth cycle.

- **The Productivity and Profit Margin Supercycle:** The U.S. is in the midst of a productivity boom that sets it apart from other developed economies. Since the pandemic, U.S. nonfarm business sector productivity has surged by 6%, dwarfing the 0.6% gain seen in the Eurozone. This is not a temporary anomaly but a structural shift driven by aggressive corporate investment in AI and automation. This productivity surge is the master variable in the current economic equation, as it allows businesses to absorb rising input costs and higher real wages while simultaneously expanding profit margins. As a result, corporate profits as a share of national income remain near all-time highs, providing a powerful engine for earnings growth that is decoupled from headline GDP.

- **Resilient Earnings Growth and Capital Returns:** This productivity advantage translates directly to the bottom line. Despite a challenging macroeconomic environment, consensus estimates from FactSet and Bloomberg project S&P 500 EPS growth of 7% to 11% for the full year 2025. This solid organic growth is being powerfully amplified by an unprecedented wave of capital returns to shareholders. Corporate share buybacks, which directly reduce share count and boost EPS, set a new quarterly record of over $290 billion in Q1 2025. This signals immense confidence from corporate management teams in their future earnings power.

Expectations

Index Prices Year-End 2025

	2025
S&P 500	6,600
NASDAQ	21,800
EuroStoxx 50	5,600
SMI	12,600
^HSI	26,500
Nikkei 225	41,500

- **Supportive Liquidity and a Dovish Fed Pivot:** This corporate strength is supported by a vast and growing pool of liquidity. The U.S. M2 money supply, a broad measure of cash and liquid deposits, climbed to a record of nearly $22.0 trillion in the first half of 2025, providing a crucial support mechanism for financial assets. Furthermore, the Federal Reserve has signaled a readiness to ease policy as inflation moderates, with market consensus anticipating one to two 25-basis-point rate cuts in the second half of the year. This impending reduction in interest rates provides a direct mathematical lift to equity valuations.

The US market will likely endure due to the powerful underlying momentum and relatively fair valuation compared to projected growth

- **The Reopening of the IPO Market:** After a prolonged drought, the market for initial public offerings (IPOs) has decisively reopened, signaling a significant improvement in investor risk appetite. The first half of 2025 saw a sharp increase in deal volume, raising over $15 billion. This momentum has been driven by several high-profile, successful debuts, including AI company CoreWeave and stablecoin issuer Circle. As noted by Renaissance Capital, this renewed energy is critical as it provides a new channel for capital to flow into public equities and offers a necessary exit route for a large backlog of private companies, with a strong pipeline of potential blockbuster IPOs for the second half of the year.

The Valuation Conundrum From a Different Perspective

The primary objection to the U.S. bull case—high valuation—is effectively neutralized when analyzed through the lens of modern, dynamic metrics that properly account for the economy's structural shifts.

Traditional metrics like the Shiller P/E (CAPE) ratio, which stood at 37.93x in June 2025, are flashing warning signals, as this level is 43.2% above its modern-era average. However, we argue this metric is increasingly anachronistic, failing to account for the high-margin, capital-light nature of the modern S&P 500 and changes in GAAP accounting. To navigate this new landscape, we employ two more sophisticated valuation tools.

- **The Potential Payback Period (PPP):** This novel indicator, introduced in a 2025 paper by Rainsy Sam, is a dynamic calculation that determines the time, in years, required for an investor to recoup their initial investment through discounted, growing earnings. Applying this model to the S&P 500, we use a forward P/E of 21.8x, a conservative 2025 EPS growth forecast of 7.0%, and a discount rate of 9.3% (based on a 4.3% 10-year Treasury yield and a compressed equity risk premium of 5.0%). The resulting PPP is approximately 28.9 years. A finite, sub-30-year payback period for a broad, diversified index is a rational, non-bubble valuation, directly refuting the alarmist narrative suggested by static multiples.

- **The CAPEG Indicator:** Our proprietary Cyclically-Adjusted Price/Earnings-to-Growth (CAPEG) indicator contextualizes the current market valuation against the realized, inflation-adjusted earnings power of the market. Using the historical data you provided, the most recent reading shows a market P/E of 25.5x and a 5-year inflation-adjusted EPS CAGR of 13.25%. This yields a CAPEG ratio of 1.92. This value is not only well within the normal historical range but is in the "green" zone of the heatmap, suggesting that on a growth-adjusted basis, the market is attractively valued. This stands in stark contrast to the Shiller P/E, demonstrating that once the powerful, technology-driven earnings growth of the last five years is properly accounted for, the market's valuation appears far from extreme.

The novel PPP and CAPEG indicators show that the market is fairly valued relative to quality growth

Based on this comprehensive analysis, we are setting year-end 2025 price targets of 6,600 for the S&P 500 and 22,000 for the Nasdaq 100.

	P/E Ratio	Shiller P/E	P/E vs Historical	Shiller vs Historical
S&P 500	**25.55x**	**37.93x**	**+11.52%**	**+43.21%**
Nasdaq	**30.23x**	**48.17x**	**+12.36%**	**+48.74%**

	CAPEG	PPP	CAPEG vs Historical	PPP vs Historical Avg
S&P 500	**1.92x**	**28.9x**	**-20.42%**	**-3.81%**
Nasdaq	**2.08x**	**27.4x**	**-18.55%**	**-8.99%**

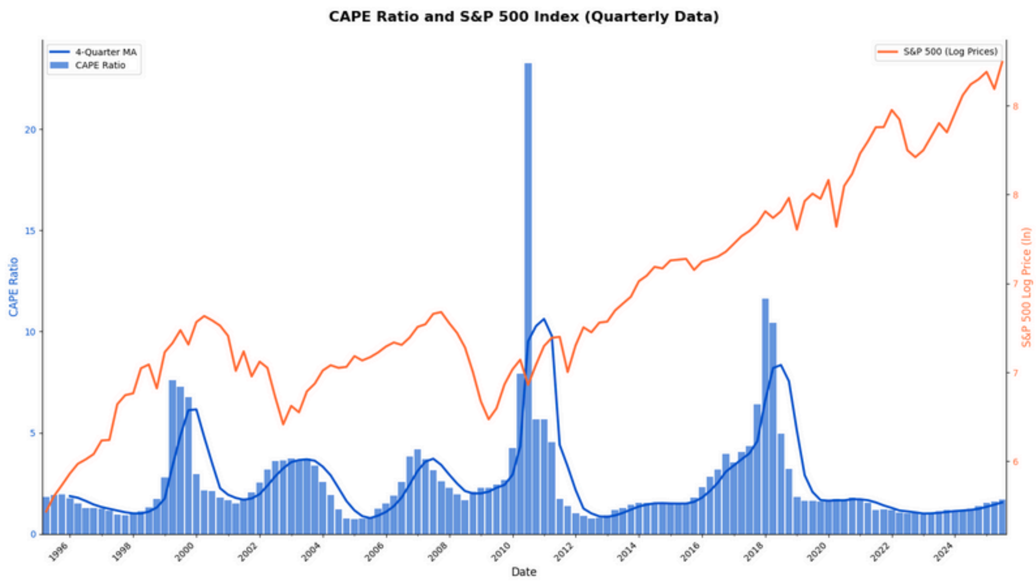


Figure 10, 11 & 12: Charts: Binomial Research, Source: FRED, TradingView, SeekingAlpha

Europe: The Great Rotation Begins

While the U.S. market continues to exhibit exceptional strength, a compelling tactical and strategic opportunity is emerging across the Atlantic. We are initiating an Overweight recommendation on European equities, which are supported by a confluence of tailwinds that make the region a prime destination for capital seeking diversification and relative value.

The investment case for Europe is no longer just about being "cheap"; it is a dynamic story of a "catch-up trade" supercharged by targeted industrial policy and a favorable currency shift. The STOXX Europe 600 index currently trades at a forward P/E multiple of approximately 15.0x, a substantial discount to the S&P 500. As the Eurozone's economic growth begins to converge with that of the U.S., driven by an accelerating tech sector and a resilient consumer, this valuation gap is poised to narrow.

The EU is poised to close the gap of productivity and returns with the US through fiscal measures, a stronger Euro and an improving economy

This is supported by a proactive policy environment. The European Union is no longer passively accepting a secondary role in key strategic industries. The Clean Industrial Deal (CID) and the EU Quantum Strategy are designed to use potent fiscal tools, such as accelerated depreciation and targeted tax credits, to stimulate massive private investment in decarbonization, renewable energy, and high-tech manufacturing. This policy-driven growth, combined with attractive valuations and a strengthening euro, underpins our year-end targets of 5,600 for the Eurostoxx 50 and 12,600 for the Swiss Market Index (SMI).

Greatness in the Making: Asia-Pacific

The bullish thesis for Asia is a robust and diversified portfolio of three distinct and powerful investment cases.

- **China:** A Policy-Driven Rebound: After a challenging period, the outlook for Chinese equities has improved significantly, driven by a decisive policy pivot from Beijing aimed at stabilizing the economy and boosting domestic demand. The government has launched an 800 billion yuan stimulus package focused on industrial and infrastructure development, alongside a doubling of the consumer goods trade-in program to 300 billion yuan. These policies are yielding tangible results: the latest data from the National Bureau of Statistics shows retail sales grew 6.4% year-over-year in May, the fastest pace since late 2023. This policy support, combined with a valuation that remains compelling—the MSCI China Index trades at an approximate 37% forward P/E discount to the MSCI All Country World Index—and an easing of external trade headwinds, creates a strong foundation for a market recovery. We are setting a year-end target of 26,500 for the Hang Seng Index (HSI).

China and Japan provide robust growth while India and South East Asia are shaping up to be an impressive growth story with many opportunities ahead

- **Japan:** A Structural Transformation: The bull case for Japan is a secular one, rooted in a profound and durable transformation of its corporate landscape. The primary catalyst is a corporate governance revolution, spurred by reforms from the Tokyo Stock Exchange that pressure companies to improve their price-to-book ratios and focus on shareholder returns. This has led to an unprecedented wave of share buybacks, which are on track to exceed ¥10 trillion for the second consecutive year. This focus on shareholder value is making Japanese companies more efficient, more profitable, and far more attractive to the foreign capital that is now flowing back into the market. This is occurring as the Bank of Japan successfully engineers an orderly exit from deflation, underpinned by the most robust wage growth seen in a generation. We are setting a year-end target of 41,500 for the Nikkei 225.

- **India:** Unstoppable Domestic Momentum: India stands out as a key structural growth story in the region. The nation continues to exhibit exceptional economic momentum, with the Reserve Bank of India forecasting 7.2% GDP growth for the current fiscal year. This is supported by a potent combination of long-term structural reforms, favorable demographics, and the government's "Make in India" initiative, which is boosting domestic manufacturing. Foreign direct investment remains strong, drawn by political stability and a rapidly growing consumer market. This translates into a promising outlook for corporate earnings growth, making India a core holding in any Asian equity strategy.

- **Southeast Asia:** The broader Asia ex-Japan region stands as a key beneficiary of a weakening U.S. dollar and the ongoing "China +1" supply chain diversification strategy. This is driving a steady flow of foreign direct investment into countries like Vietnam and Indonesia, fueling a boom in manufacturing and logistics infrastructure.

6

Sector Overview: 2025

Banking

The investment banking sector is poised for a strong cyclical rebound in the second half of 2025, driven by a powerful confluence of a reopening capital market, a more favorable regulatory posture, and resilient corporate balance sheets. After a period of subdued deal-making since the post-pandemic peak, caused by inflationary pressures and regulatory hurdles—such as the high-profile blocking of the JetBlue-Spirit merger and the initial challenges to the Capital One-Discover deal—key shifts in the macroeconomic and policy environment are set to reignite the sector.

A primary catalyst is the resurgence in Mergers & Acquisitions (M&A) activity. Global M&A volumes, while still below their 2021 highs, have shown a distinct recovery in the first half of 2025. According to data from S&P Global Market Intelligence, deal value is on track to significantly surpass 2024 levels. This rebound is fueled by a record $2.5 trillion in private equity "dry powder" that must be deployed, coupled with a growing imperative for corporations to pursue strategic acquisitions to achieve growth in a slower macroeconomic environment. We anticipate this trend will accelerate in H2 2025, driven by deals in the technology, healthcare, and energy sectors.

Consumer, business and industrial trends have fundamentally shifted leading to sectors such as nuclear energy, LNG, e-commerce and AI hardware to take the spotlight going forward

In addition to M&A, the Initial Public Offering (IPO) market has decisively reopened, providing a critical revenue stream for investment banks. After a near-dormant period, the first half of 2025 saw a sharp increase in deal volume, raising over $15 billion. While mega-IPOs remain scarce, the market is being driven by a steady flow of small- and mid-cap companies capitalizing on high valuations to access public markets. This dynamic, characterized by a higher volume of smaller deals, provides a consistent stream of advisory and underwriting fees for a wide range of investment banks, not just the bulge bracket. A strong pipeline of potential listings for the second half of the year, including high-profile tech "unicorns," signals continued momentum.

This revival in capital markets activity is supported by the robust health of corporate balance sheets. Non-financial companies in the S&P 500 continue to hold near-record levels of cash, providing the firepower for strategic acquisitions and significant shareholder return initiatives. Corporate share buybacks, which often require advisory services, set a new quarterly record of over $290 billion in Q1 2025.

Finally, a potential shift toward a more accommodative regulatory environment in the U.S. could provide a significant tailwind. A less stringent interpretation of antitrust rules and a more industry-friendly posture from key agencies could ease the path for large-scale M&A. Furthermore, potential adjustments to bank capital requirements, such as the final implementation of Basel III "endgame" rules, could free up bank capital, increasing their capacity for lending and investment banking activities. This combination of a cyclical recovery in deal-making and a supportive policy backdrop positions the investment banking sector for strong performance through the second half of 2025.

Defense

The global security landscape has fundamentally shifted, ushering in an era of renewed great power competition that has triggered a secular, multi-year cycle of increased defense spending. World military expenditure reached a record $2.7 trillion in 2024, representing the steepest year-on-year increase since the end of the Cold War. This spending is increasingly directed toward modernization and high-end, technologically advanced capabilities.

- **The New Battlefield:** One of the most profound lessons from recent conflicts is the disruptive power of low-cost, high-precision unmanned systems. The global market for loitering munitions (kamikaze drones) was valued at $2.6 billion in 2024 and is forecast to expand at a formidable 15.3% CAGR, reaching nearly $11 billion by 2034. The pursuit of hypersonic weapons is also a top priority, with the market for offensive systems projected to grow from $9.07 billion in 2025 to nearly $25 billion by 2034. A more profound long-term investment opportunity lies in creating a credible defense against them, a multi-decade effort requiring new space-based sensors and advanced interceptors.

- **Strategic Platforms & Air Power:** The modernization of high-value strategic assets remains a cornerstone of defense spending. A prime example is the development of next-generation stealth aircraft, such as the U.S. Air Force's B-21 Raider bomber. The B-21 program, designed for penetrating strike missions in highly contested environments, carries a substantial budget of $10.3 billion in the FY2026 request and $13.8 billion in FY2025, highlighting its priority. Such programs create demand not only for the prime contractor but for a wide range of suppliers providing advanced subsystems and materials, including specialized stealth coatings designed to reduce radar cross-sections.

- **The Space Economy:** The space economy is rapidly transitioning from a government-dominated domain to a vibrant commercial industry. According to the Space Foundation, the global space economy reached a record $546 billion in 2023 and is on a clear trajectory to exceed $1 trillion before the end of the decade, driven by LEO satellite constellations and the commercial "lunar economy" spurred by NASA's Artemis program.

Energy & Utilities

The surge in data center construction is creating a secular growth driver for the utility sector, with overall electricity demand in the U.S. now expected to grow 1-2% annually after years of flatlining. This is forcing a massive new cycle of investment in grid renewal, with analysis suggesting over $720 billion in grid investments will be needed by 2030 to accommodate this new load. This power crunch has also opened the door for a renewed focus on nuclear energy, specifically Small Modular Reactors (SMRs), which offer the 24/7, carbon-free, baseload electricity that AI workloads demand and that intermittent renewables cannot provide alone. The SMR market is projected to grow from $5.96 billion in 2025, with the global development pipeline surging by 42% in the first quarter of 2025 alone. This trend is being driven by direct partnerships, such as those between major tech companies and SMR developers, to power future data centers.

Global Energy Flows: Midstream LNG & Rare Earth Materials

Geopolitical forces continue to reshape global energy trade, creating durable opportunities in midstream infrastructure and critical materials. U.S. LNG has become a cornerstone of global energy security, particularly for Europe as it continues its strategic pivot away from Russian pipeline gas. This has created a powerful, long-term demand driver for U.S. LNG exports, which are forecast by the Energy Information Administration (EIA) to increase by a substantial 19% in 2025. This benefits the midstream companies that transport, store, and process this natural gas. At the same time, the energy transition and the high-tech defense industry are critically dependent on a stable supply of rare earth metals, which are essential inputs for high-performance magnets used in EV motors, wind turbines, and precision-guided munitions. The market is characterized by a significant geopolitical vulnerability, as China currently controls over 80% of global production. This dominance has spurred Western governments to actively de-risk their supply chains, creating a "geopolitical arbitrage" opportunity for producers in Australia, Canada, and the US.

TLDR: our thesis is centered around the continued demand for energy creating strong demand for sources such as nuclear and LNG, while we believe that solar is still in the game as a dark horse

Beyond the core energy themes, two areas present distinct risk-reward profiles for H2 2025. Deep-sea mining is a high-risk, high-reward frontier for securing critical minerals like nickel, cobalt, and manganese from polymetallic nodules on the ocean floor. The strategic importance of these minerals prompted the U.S. to issue an Executive Order in April 2025 aimed at bolstering American leadership in this domain. However, the industry is mired in regulatory uncertainty, as the International Seabed Authority (ISA) is locked in contentious negotiations to finalize a global mining code. This remains a highly speculative play where regulatory developments will be the primary catalyst.

A "dark horse" player in the energy landscape is solar power. While often criticized for its intermittency, the sheer scale of its deployment and its continuously falling costs make it a powerful disruptive force. In 2025, an estimated 32.5 GW of new utility-scale solar capacity is expected to be added in the U.S. alone, accounting for over half of all new generating capacity. For the energy-hungry data center industry, massive solar-plus-storage projects are becoming increasingly cost-competitive with natural gas, especially in sun-rich regions. As battery technology improves and costs decline, the ability of solar to provide low-cost, carbon-free electricity will make it an increasingly important part of the solution to the AI power trilemma.

AI & Diversified Tech

Although the AI and tech sectors have seen historical bull runs over the past 18 months, significant growth potential remains in the foundational niches that enable the AI revolution. For the second half of 2025, our analysis indicates that the most compelling and durable investment opportunities are not necessarily in the application layer of AI itself, but in the vast and complex ecosystem of "picks and shovels" required to build, power, and connect intelligent systems. The investment thesis is anchored in the physical realities of AI deployment: the specialized hardware that functions as its brain, the data centers that house it, and the networking fabric that connects it all, including the rapidly expanding network edge.

The foundation of the AI revolution is built on silicon, but the nature of that silicon is evolving. While the initial wave of investment was concentrated in data center hardware, the next major growth cycle will be driven by the infusion of AI capabilities directly into endpoint devices, alongside a resilient demand for legacy chips.

- **The Data Center Engine:** The demand for powerful server-side processors remains robust. The market for AI accelerators is projected to exceed $65 billion in 2025, fueled by the insatiable computational needs of training and running LLMs. This continues to benefit market leaders like NVIDIA (with its Blackwell GPU architecture), foundries like TSMC, and producers of essential components like High-Bandwidth Memory (HBM), where demand is expected to grow by over 70% in 2025.

- **The New Frontier:** The most significant emerging trend is the shift to on-device AI processing. This is being enabled by a new class of microprocessors equipped with dedicated Neural Processing Units (NPUs), which are designed to handle AI and machine learning tasks far more efficiently than traditional CPUs or GPUs. This architectural shift is creating a massive upgrade cycle for personal computers and smartphones. The market for "AI PCs" is forecast to explode, with shipments projected to grow from roughly 50 million units in 2024 to over 167 million in 2027, accounting for nearly 60% of all PC shipments. This trend is being driven by major product launches from key players like Qualcomm (with its Snapdragon X Elite and Hexagon NPU), Intel (with its Core Ultra "Lunar Lake" processors), and Apple (with its M-series chips).

The Connective Tissue: Networking & Edge Computing

The massive amounts of data being generated by both cloud-based and on-device AI are placing immense strain on legacy network infrastructure, catalyzing a new cycle of investment from the data center core to the network edge.

We believe that the AI revolution is far from over but hold that it will be focused more niche verticals such as edge computing, networking and AI hardware.

- **High-Performance Networking:** To prevent data bottlenecks, enterprises are accelerating their network upgrade cycles. The campus and branch networking market is poised for a solid 10% rebound in 2025 as businesses adopt next-generation technologies like Wi-Fi 7 to support data-intensive AI applications. Within the data center itself, the demand for higher bandwidth to connect thousands of GPUs for AI training is driving a rapid transition to 400G and 800G Ethernet, a market projected to grow at a CAGR of over 25% through the end of the decade.

- **The Rise of the Intelligent Edge:** Edge computing, a market forecast to be worth over $564 billion in 2025 and projected to grow at a staggering 28% CAGR through 2034, is the critical bridge between endpoint devices and the central cloud. The traditional model of sending all data to a centralized cloud for processing is unworkable for applications that require near-instantaneous response times, such as autonomous vehicles, smart factory robotics, and real-time analytics. Edge computing solves this by processing data closer to where it is generated, creating a massive new addressable market for a full stack of technologies.

While the infrastructure buildout represents the most tangible investment theme, a clear path to monetization is emerging in the application layer, with advertising technology (ad tech) being a prime example. The market for AI in marketing is projected to reach $47.3 billion in 2025, growing at a CAGR of 36.6%. Generative AI is transforming the industry by automating the creation of ad copy and creative assets, while AI-driven algorithms are enhancing the efficiency of programmatic advertising through more precise targeting and real-time bidding. The world's largest digital advertising platforms, Google and Meta Platforms, are moving quickly to integrate these capabilities, demonstrating a clear and scalable revenue model

We believe that REITs provide a strategic opportunity through structural themes in the senior care and data centers verticals and a distress investing opportunity in offices

REITs

The U.S. REIT sector sits at a critical inflection point, characterized by a stark bifurcation between sub-sectors. The Federal Reserve's anticipated pivot to rate cuts could provide relief to valuations. However, a formidable $957 billion "refinancing wall" of maturing commercial real estate debt looms, creating distress for overleveraged owners. This sets the stage for a market of extremes, where successful investment will hinge on precise sub-sector selection.

We favor an overweight position in structural winners like Data Center REITs, propelled by the non-cyclical demand from AI, and Healthcare REITs, supported by powerful demographic tailwinds. Alongside these, Retail and Hospitality REITs are demonstrating strong cyclical resilience. Retail, particularly grocery-anchored centers, benefits from low national vacancy rates and steady consumer spending. Hospitality is experiencing a robust recovery in both leisure and business travel, driving up occupancy and revenue per available room. Conversely, the Office sector remains the weakest link, though this distress creates a strategic opportunity for well-capitalized public REITs to acquire high-quality assets at a discount.

E-commerce

The e-commerce sector is expected to outperform, driven by a fundamental shift in consumer behavior and supported by industrial and macroeconomic trends. The narrative for growth has decisively decoupled geographically. While developed markets are maturing, with growth slowing to single-digit rates, the true engine of expansion is now in the emerging economies of the Global South. These regions possess a powerful combination of favorable demographics, rapidly increasing internet and smartphone penetration, and a rising middle class with growing disposable income.

This trend is particularly pronounced in specific high-growth regions. Southeast Asia is a standout, with its e-commerce market projected to grow at a staggering 21.7% CAGR to reach $1.48 trillion by 2033, driven by a young, mobile-first population and the rise of "shoppertainment." Latin America is currently the fastest-growing e-commerce market in the world, with its market volume projected to reach $769 billion in 2025, a remarkable 21% year-over-year growth. As these dynamics play out, e-commerce companies, logistics providers, and digital payment platforms positioned in these high-growth regions are poised for sustained, long-term growth.

At Binomial, we constantly aim to find and participate in the frontier of global technology and innovation through our growth equity investing sleeve as we believe that innovation drives excellence.

Growth Equity: Quantum, Robotics, Space & Blockchain

Beyond the 18-month investment horizon, several foundational technologies are advancing at a pace that promises to reshape industries and create entirely new markets over the coming decade. While direct, pure-play investment opportunities in these areas may still be nascent, understanding their trajectory and convergence is critical for long-term strategic portfolio positioning.

Quantum Computing: The Next Computational Paradigm

Quantum computing is emerging from the realm of theoretical science into a tangible engineering reality, poised to redefine industries by tackling problems that are intractable for even the most powerful classical supercomputers. The United Nations' designation of 2025 as the International Year of Quantum Science and Technology underscores its growing importance and momentum. The global market, while still small, is expanding at a formidable pace, projected to reach between $1.44 billion and $1.8 billion in 2025 and forecast to grow at a CAGR of approximately 31-33% through the end of the decade. Unlike traditional computers that rely on binary bits (0s and 1s), quantum computers use qubits, which leverage quantum mechanics principles like superposition and entanglement. This allows them to explore a vast number of possibilities simultaneously, offering an exponential leap in computational power for specific types of problems. The year 2025 has already been marked by significant technical breakthroughs, particularly in quantum error correction—a critical hurdle that must be overcome to build fault-tolerant quantum machines.

The primary applications for these early-stage machines are in solving complex optimization, simulation, and machine learning problems. This holds immense potential for industries like:

- **Finance:** For complex risk modeling, high-frequency trading algorithms, and portfolio optimization.
- **Healthcare & Pharmaceuticals:** For accelerating drug discovery and molecular simulation, which could dramatically shorten development timelines for new medicines.
- **Materials Science:** For designing novel materials with specific properties at the atomic level.

The competitive landscape is being shaped by technology giants like IBM, Google, and Microsoft, which are providing access to their early-stage quantum machines via cloud platforms, alongside specialized startups such as D-Wave and IonQ. Akin to the early days of AI's rise in 2018-2019, quantum computing is a generational opportunity whose potential is just beginning to be understood.

Advanced Robotics & Automation

The robotics industry is undergoing a profound transformation, driven by the convergence of advanced hardware with artificial intelligence. The global market for advanced robotics is projected to exceed $53 billion in 2025, with some estimates placing it as high as $71 billion, and is expected to grow at a strong CAGR of 16-20%. The key technological advancement is the deep integration of AI and machine learning, which is endowing robots with unprecedented levels of autonomy, environmental awareness, and decision-making capability.

This is enabling the rise of collaborative robots, or "cobots," designed to work safely and efficiently alongside humans in dynamic environments, moving beyond the caged, repetitive-task robots of the past. Furthermore, the use of digital twin technology allows for the virtual simulation and optimization of robotic systems before they are physically deployed, accelerating development and improving performance. The primary applications driving growth are in industrial automation, where autonomous mobile robots (AMRs) are revolutionizing manufacturing and logistics, and in healthcare, where precision surgical robots are improving patient outcomes and enabling less invasive procedures.

Blockchain & Stablecoins: The New Financial Plumbing

The blockchain ecosystem once an overlooked and criticized part of the financial system is now at center-stage due to it’s amazing value proposition.

The foundational infrastructure for a new, digitally native financial system is being built on blockchain technology. The market for blockchain applications in the banking and financial services sector is experiencing exponential growth, projected to reach $10.85 billion in 2025—a stunning 55% increase from the previous year. The technology offers a secure, transparent, and decentralized ledger that can streamline processes, reduce costs, and enhance security for a wide range of financial activities, including fund transfers, real-time loan funding, and the issuance of digital securities. Within this ecosystem, 2025 is emerging as a breakout year for stablecoins, which are digital tokens pegged to stable assets like the U.S. dollar.

Their market capitalization has surged to over $223 billion, and their transaction volumes have reportedly surpassed those of traditional payment networks like Visa and Mastercard. This explosive growth is driven by their utility in facilitating fast, low-cost cross-border payments, their increasing adoption by institutional players for settlement, and their integration by major payment companies like PayPal and Stripe. Stablecoins are rapidly evolving from a niche crypto-asset into a foundational component of the global financial plumbing, poised to capture a significant share of the multi-trillion-dollar global payments market.

Space has lived up to it's name as the final frontier. As companies and nations race to dominate space for it's high value in defense, connectivity and data collection, we believe that the space economy will boom for the foreseeable future.

The Space Economy: The Next Trillion-Dollar Frontier

The space economy is rapidly transitioning from a government-dominated domain to a vibrant and diverse commercial industry, creating a new frontier for long-term growth investors. According to the latest analysis from the Space Foundation, the global space economy reached a record $546 billion in 2023 and is on a clear trajectory to exceed $1 trillion before the end of the decade. This expansion is driven by two powerful, converging forces: a dramatic reduction in launch costs, pioneered by companies like SpaceX, and a surge in demand for space-based data and services.

- **Satellite Constellations and Connectivity:** The dominant driver of the space economy is the deployment of large-scale satellite constellations in Low Earth Orbit (LEO). Companies like SpaceX (Starlink) and Amazon (Project Kuiper) are launching thousands of satellites to provide global broadband internet service, creating a massive new market for connectivity and challenging the dominance of traditional terrestrial telecom providers.

- **National Security and Earth Observation:** Space has become a critical domain for national security. The U.S. Space Force budget continues to grow, funding the development of next-generation satellites for missile warning, intelligence, surveillance, and reconnaissance (ISR). This government demand provides a stable, long-term revenue stream for established defense contractors and innovative new space companies. Simultaneously, the commercial market for Earth observation data is booming, with applications ranging from climate monitoring and agricultural management to financial market intelligence.

- **The Lunar Economy:** A new phase of space exploration, led by NASA's Artemis program, is focused on establishing a sustainable human presence on the Moon. This ambitious, multi-decade program is not just a government endeavor; it is designed to catalyze a commercial "lunar economy," creating opportunities for companies involved in building lunar landers, rovers, habitats, and resource extraction technologies.

7

Commodities: Gold & Oil Focus

We believe that commodities and specifically certain industrial metals and gold provide significant investment, safe haven and diversification opportunities

Crude Oil

Our forecast for crude oil in the second half of 2025 is bearish, and we are setting a year-end price target of $62 per barrel for Brent crude. This view is driven by a fundamental shift in the supply-demand balance. While geopolitical risks in the Middle East provide a floor for prices, we believe the market is underappreciating the impact of a significant increase in supply from OPEC+ and resilient non-OPEC production.

At its recent meetings, the OPEC+ group has signaled a clear intention to begin unwinding its voluntary production cuts throughout the second half of the year. Analysis from the International Energy Agency (IEA) suggests that if these cuts are fully reversed, it could add more than 1.5 million barrels per day to global supply by year-end. This planned supply hike is a strategic move by key producers to regain market share and is occurring at a time when demand growth is showing clear signs of deceleration. The latest monthly oil market reports from both the IEA and OPEC show downward revisions to their 2025 global demand growth forecasts, citing the economic slowdown in the U.S. and persistent weakness in China's property-driven economy.

Expectations

Commodities Prices Year-End 2025

	2025
Gold	$3500
Crude Oil	$62
Copper	$9700

Simultaneously, non-OPEC supply, particularly from U.S. shale basins, has proven more resilient than expected. The latest drilling productivity reports indicate that efficiency gains are allowing U.S. producers to maintain or even slightly increase output despite a lower rig count. This combination of a deliberate OPEC+ supply increase and surprisingly robust non-OPEC production is set to create a significant market surplus in the coming months, which we project will push oil prices lower.

Gold

Our outlook for gold in H2 2025 remains unequivocally bullish, and we are setting a year-end price target of $3,500 per ounce. The precious metal is benefiting from a confluence of powerful and durable tailwinds that solidify its role as the ultimate safe-haven asset in an increasingly uncertain global environment. The primary driver is a structural increase in demand from central banks, which are actively diversifying their reserves away from the U.S. dollar. According to the World Gold Council, central bank net purchases have continued at a robust pace through the first half of 2025, a trend we expect to accelerate. This strategic buying, led by institutions like the People's Bank of China, is not sensitive to short-term price fluctuations and provides a strong, consistent floor for the market. This is occurring against a backdrop of deteriorating U.S. fiscal metrics and heightened geopolitical risk. As detailed in our bond market forecast, the unsustainable trajectory of U.S. government debt is eroding global confidence in the dollar as the primary reserve asset. Gold, as a non-sovereign monetary asset with no counterparty risk, is the primary beneficiary of this trend. Furthermore, ongoing geopolitical tensions and the unpredictable nature of U.S. trade policy are creating a persistent bid for portfolio insurance. While higher-for-longer U.S. interest rates would typically be a headwind for a non-yielding asset like gold, this factor is being overwhelmed by the powerful demand for a hedge against fiscal and political instability.

Industrial Metals & Rare Earth Elements

Our outlook for key industrial and strategic metals is bullish, based on powerful, multi-decade structural demand trends that are largely insulated from near-term macroeconomic volatility.

Copper: Our bullish case for copper is driven by powerful, long-term structural demand from the "twin engines" of the energy transition and the AI infrastructure build-out. This demand is running into a constrained supply side, with a lack of new projects and rising geopolitical risk in key mining regions. This widening supply-demand deficit supports our year-end price target of $9,700 per tonne.

Rare Earth Elements (REEs): Our bullish view on Rare Earth Elements (REEs) is a story of geopolitical supply risk. These elements are indispensable for high-tech applications, and China's dominance of the supply chain allows it to use export quotas as a tool in trade conflicts. The latest quota announcements for H2 2025 show a further tightening of supply, which is expected to keep the market exceptionally tight and put upward pressure on prices as Western nations have limited short-term alternatives.

8

Cryptocurrency: Stablecoin fever

With increased consumer adoption, businesses adoption, political recognition and advanced technology cryptocurrencies are here to stay

A robust crypto ecosystem

The digital asset market is poised for a robust second half of 2025, driven by a powerful combination of increasing institutional adoption, a clarifying regulatory landscape, and a supportive macroeconomic backdrop. Our outlook is broadly bullish, though we see significant divergence in the potential performance of major assets, creating clear opportunities for alpha generation. We are bullish on Bitcoin (BTC), viewing it as a maturing macro asset and setting a year-end price target of $125,000. We are very bullish on Solana (SOL), which we believe is capturing significant market share and has been legitimized by the recent approval of a spot ETF, and we project a price target of $210. We are more cautious on incumbents like Ethereum (ETH) and Ripple (XRP), forecasting more modest upside to $3,000 and $2.60 respectively, as they face unique competitive and regulatory headwinds. Other key catalysts for the entire ecosystem are the legitimization of stablecoins through new legislation and the popularization of asset tokenization, which we believe will unlock a new wave of capital and innovation.

Expectations

Cryptocurrency Prices Year-End 2025

	2025
Bitcoin	$125,000
Ethereum	$3,000
Solana	$210
Ripple	$2.60

Stablecoins: The Foundational Layer for Growth

We are particularly excited by the developments in the stablecoin sector, which we view as the foundational layer for the next phase of digital asset adoption. Stablecoins are digital tokens designed to maintain a stable value by pegging themselves to a reserve asset, typically the U.S. dollar. The most common structure, used by major issuers like Circle (USDC), involves holding a basket of high-quality, liquid reserves—such as cash and short-term U.S. Treasury bills—that fully back each token in circulation on a one-to-one basis.

Their primary use case is to function as a seamless bridge between the traditional financial system and the digital asset ecosystem, allowing for near-instant settlement of trades and efficient cross-border payments. The recent passage of the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act is a game-changer. By creating federal standards for issuance and reserve management, the Act provides regulatory certainty that will unlock a new wave of institutional and corporate adoption.

This legislation has two profound effects. First, it enhances user safety and reduces systemic risk, making stablecoins a more trusted instrument for payments and settlement. Second, by mandating that reserves be held in cash and short-term U.S. government debt, it creates a massive new source of demand for U.S. Treasuries, effectively strengthening the U.S. dollar's role in the digital age. As the regulated stablecoin market expands—with some projections seeing it reach over $1.5 trillion by the end of the decade—it will become a critical piece of plumbing for the entire digital economy, enhancing liquidity and providing the stable unit of account necessary for more complex financial applications to be built on-chain.

Growth Opportunities and Challenges

Bitcoin (BTC) - Price Target: $125,000
Our price target is predicated on Bitcoin's maturation into a legitimate macro asset. Sustained institutional demand via U.S. spot ETFs is creating a structural bid for the asset, which is occurring against a backdrop of tightening supply following the last "halving" event. This solidifies Bitcoin's core narrative as a decentralized and provably scarce store of value.

Solana (SOL) - Price Target: $210
Our price target reflects our view that Solana is successfully capturing market share as a leading high-performance blockchain. The recent approval of a spot Solana ETF is a landmark achievement that legitimizes SOL as an institutional-grade asset and provides a regulated on-ramp for a new wave of institutional capital, which we believe will be a major price catalyst.

Ethereum (ETH) - Price Target: $3,000
Our more cautious outlook for Ethereum stems from significant headwinds that cap its relative performance. The network's high transaction fees continue to push users towards cheaper alternatives, while the launch of a Solana ETF creates a direct competitor for institutional investment flows.

Ripple (XRP) - Price Target: $2.60
Persistent regulatory uncertainty in the United States drives our more modest price target for Ripple. The long-running legal case between Ripple Labs and the SEC creates a significant overhang for XRP, and until these issues are definitively resolved, we believe the asset will struggle to attract significant institutional capital.

Explain it to me like I'm 12: Stablecoins & Tokenization

Stablecoins are digital dollars that live on the internet and are always worth the same amount—usually $1. This makes them very different from other cryptocurrencies like Bitcoin, which can change in value a lot every day. Because stablecoins don't swing up and down in price, they're useful for things like saving money, buying things online, or sending money to friends—even across the world—quickly and cheaply, without needing a bank.

Stablecoins could change how finance works because they let people move money 24/7, without needing banks to be open or charging big fees. For example, someone in one country can send stablecoins to someone in another country in seconds, instead of days, and without paying extra for currency exchange. They also make it easier for people who don't have access to banks to store money safely on their phones. In the future, stablecoins could make money more global, faster, and fairer for everyone—kind of like turning the internet into one big bank that never closes.

Tokenization is when something real—like a house, a piece of art, or even a company—is turned into small digital parts called tokens. These tokens live on the blockchain (like a big public notebook that keeps track of everything). So instead of needing thousands of dollars to buy a house, you could buy a small token worth just $100 and own a tiny part of it. It's like turning something big into Lego pieces that lots of people can share. Together, stablecoins and tokenization are helping more people use the internet to save, invest, and own things in smarter and easier ways.

9

Risk Scenarios & Asset Allocation

Risk Scenarios

We have identified recession, bubble popping, and sustained volatility as potential risk scenarios in 2025.

We have identified three key risk scenarios that could impact the S&P 500 in the coming year: a potential market reset driven by an official US recession and the following sell off, a potential pop of the current AI driven bubble and the collapse of the tech sector, sudden shifts in trade policy, and the risk of a consistently volatile market that caps potential upside. Below, we detail these scenarios and their implications for market performance.

Scenario 1: Recession (30% Chance)

In our recesion scenario, to which we assign a 30% probability, the U.S. economy enters a recession in the second half of 2025, with the S&P 500 falling to a year-end target of 4,700. This outcome would be triggered by a confluence of policy missteps. The primary catalyst would be a failure of the administration's trade strategy and a late or lacking Fed cut. This would lead to a sharp contraction in corporate earnings and a spike in cost-push inflation. Faced with persistent inflation and a ballooning fiscal deficit from the OBBB, the U.S. Treasury market could experience a disorderly sell-off, forcing long-term interest rates sharply higher. This would, in turn, compel the Federal Reserve to maintain its restrictive stance—or even tighten further—to defend its credibility, tipping the already fragile economy into a hard landing.

Expectations

S&P 500 Price Targets for different risk scenarios

	2025
Recession	$4,600
Bubble Pops	$4,900
Sustained Volatility	$5,800
Trade Tensions	$5,200

Scenario 2: Sustained Volatility (20% Chance)

In this scenario, to which we assign a 20% probability, the market fails to achieve a clear direction, entering a period of sustained, range-bound volatility with the S&P 500 ending the year near 5,800. This outcome is not a recession or a crash, but rather a frustrating stalemate where the powerful bullish forces of strong corporate earnings and productivity are effectively neutralized by the powerful bearish headwinds of chronically high interest rates and persistent policy uncertainty. In this environment, neither bulls nor bears can gain decisive control. Every rally is sold off on fears of a hawkish Fed, and every dip is bought on the back of resilient corporate fundamentals, leading to a choppy, sideways market that ultimately makes little headway.

Scenario 3: Continued Trade Tensions (20% Chance)

In this scenario, to which we assign a 20% probability, the administration's aggressive trade policy fails to pivot to successful bilateral deals, and instead, high tariffs remain in place or escalate. This would prove the market's "TACO" (Trump Always Chickens Out) theory wrong, forcing a significant repricing of risk. Persistent tariffs would act as a direct tax on consumers and a major headwind for corporate profit margins, leading to widespread earnings disappointments. Faced with a stagflationary environment of slowing growth and sticky, tariff-induced inflation, the Federal Reserve would be unable to cut interest rates, removing a key pillar of support for the market. This would trigger a sharp contraction in equity multiples, driving the S&P 500 down to our year-end target of 5,200.

Scenario 4: Bubble Pops (10% Chance)

In our tail-risk scenario, to which we assign a 10% probability, the market's bullish sentiment proves to be unfounded "irrational exuberance," leading to a sudden and severe asset price correction. This scenario would see the S&P 500 fall to a year-end target of 4,900. The catalyst for such a pop would not be a traditional economic slowdown, but rather a crisis of confidence in the very narratives that have propelled the market to its current valuations. This could be triggered by a realization that the productivity gains from AI are not materializing as quickly as anticipated, leading to a sharp downward revision of long-term earnings growth expectations. Alternatively, a credit event, perhaps stemming from unforeseen leverage in the private markets or a crisis in the digital asset space, could trigger a financial contagion that shatters investor confidence. In this scenario, the market's high valuations would be exposed as unsustainable, leading to a rapid and disorderly deleveraging and a sharp contraction in equity prices as the speculative bubble pops.

Considering our overall outlook and hedging against our identified risk scenarios we have devised a balanced asset allocation strategy with a strong conviction in equities, certain alternatives and investment grade bonds.

Our Asset Allocation Strategy

Based on the current macroeconomic environment and the trends outlined earlier, we have structured our asset allocation strategy to balance growth opportunities with risk management. This approach reflects a cautiously pro-risk stance, prioritizing sectors and regions with strong fundamentals while hedging against potential downside risks from policy uncertainty and a shifting global landscape.

We maintain a **Neutral position on Cash.** While elevated short-term interest rates have made cash a viable asset, we believe the opportunity cost of holding excess cash is high in an environment where select equities and alternatives offer superior returns. We prefer to deploy capital into these growth opportunities while maintaining sufficient liquidity to act tactically in a volatile market.

In **Fixed Income, we are moderately Underweight**. The primary driver of this view is the structural pressure on U.S. Treasury yields from massive fiscal issuance and a repricing of sovereign risk. Within this allocation, we are Neutral on Investment Grade corporate and government bonds, which offer attractive all-in yields and serve as a crucial portfolio stabilizer. However, we are Strongly Underweight High Yield bonds. In our view, current credit spreads do not adequately compensate for the rising risk of defaults as the global economy slows and higher financing costs pressure weaker corporate balance sheets.

Our **strongest conviction lies in Equities, where we remain Overweight.** This position is driven by a belief in resilient corporate earnings, particularly in the U.S., and compelling regional diversification opportunities.

- USA (Overweight): We maintain a core overweight position in U.S. equities. The U.S. remains the primary engine of global growth, powered by a technology-driven productivity supercycle that is expanding corporate profit margins. Strong shareholder returns via buybacks and a reopening IPO market provide additional tailwinds that justify this allocation despite higher valuations.

- Europe (Overweight): We see Europe as a compelling "catch-up trade." The region benefits from an attractive relative valuation discount to the U.S., a dovish European Central Bank, and targeted industrial policy in green technology and defence that will support earnings growth.

Overall, we would define the year ahead as a year with more moderate, spread-out and balanced growth with significant earnings and productivity gains fueling businesses, while uncertainty takes away full upside

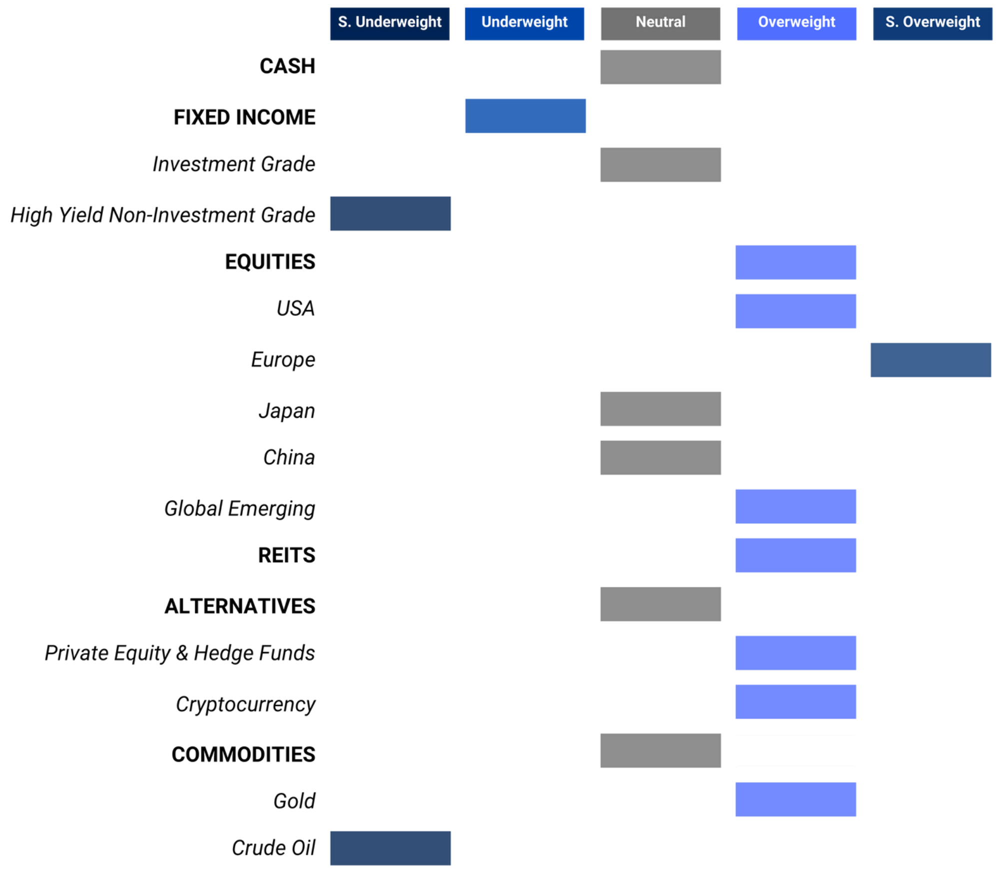
- **China (Neutral):** We are taking a more balanced stance on China. While significant structural headwinds from the property crisis and geopolitical tensions remain, aggressive policy support from Beijing is beginning to stabilize the economy, and valuations are at historical lows, warranting a neutral rather than underweight position.

- **Global Emerging (Overweight):** This allocation is primarily a play on the "China plus one" supply chain diversification trend and a weakening U.S. dollar. We see strong growth opportunities in markets like India and Southeast Asia, which are direct beneficiaries of these powerful secular shifts.

In other asset classes, we are **Overweight REITs.** While the sector faces headwinds from high interest rates, we see value in specific segments like data centers and logistics that are benefiting from structural growth trends. We believe the market has overly punished the entire sector, creating attractive entry points.

We hold a Neutral view on Alternatives, but with strong preferences within the category. We are **Overweight Private Equity & Hedge Funds,** where we believe skilled active managers can generate alpha in a volatile and dislocated market. We are also **Overweight Cryptocurrency**, driven by increasing institutional adoption via ETFs and its emerging role as a hedge against global fiscal debasement.

Finally, we are **Neutral on the Commodities complex**, which we see as a story of divergence. We are **Overweight Gold** as a key hedge against geopolitical risk and the deteriorating U.S. fiscal outlook. Conversely, we are **Strongly Underweight Crude Oil**, where we forecast a market surplus in the second half of the year driven by rising OPEC+ supply and decelerating global demand.



Conclusion

Our H2 2025 outlook is cautiously optimistic. While equities in the U.S., EU, and emerging markets are poised for growth, driven by strong productivity, earnings and innovation in AI, semiconductors, and quantum computing, risks like a US recession, policy uncertainties and a potential AI bubble still remain significant. Elevated valuations, a weak bond market and potential macroeconomic disruptions require a disciplined, diversified strategy.

We emphasize overweight positions in developed market equities, crypto and hedge funds, and gold, neutral positions in cash and investment grade bonds, while underweighting crude oil, private equity, and non-investment-grade debt. Navigating H2 2025 successfully will demand a focus on capturing growth opportunities while managing risks in an evolving global environment.

Appendix

Macroeconomic Forecasts

Core CPI (%)

	2024	2025
USA	2.7%	2.7%
Eurozone	2.4%	1.9%
Germany	2.5%	2.3%
Japan	2.5%	2.0%
China	0.5%	0.4%

Policy Rates (%)

	2024	2025
USA	4.50%	4.00%
Eurozone	3.00%	1.75%
Japan	0.25%	0.75%
China	3.10%	2.75%

Fiscal Deficit, FY 2025 (%)

	2024	2025
USA	-6.6%	-7.3%
Eurozone	-2.8%	-2.7%
Germany	-2.1%	-1.9%
France	-6.1%	-6.6%
Japan	-6.0%	-4.0%
China	-13.2%	-15.5%

Economic Growth, GDP (%)

	2024	2025
World	3.1%	3.2%
USA	2.7%	1.6%
Eurozone	0.7%	1.0%
Switzerland	0.9%	1.1%
France	1.2%	1.2%
Japan	-0.1%	0.8%
China	4.9%	4.3%

Financial Markets Forecasts

Bond Yields, GDP (%)

	2025
USA 2YR	4.30%
USA 10YR	4.50%
USA 30YR	4.90%
Germany 2YR	1.75%
Germany 10YR	2.65%
Japan 2YR	0.85%
Japan 10YR	1.35%

Index Prices Year-End 2025

	2025
S&P 500	6,600
NASDAQ	21,800
EuroStoxx 50	5,600
SMI	12,600
^HSI	26,500
Nikkei 225	41,500

Commodities Prices Year-End 2025

	2025
Gold	$3500
Crude Oil	$62
Copper	$9700

Cryptocurrency Prices Year-End 2025

	2025
Bitcoin	$125,000
Ethereum	$3,000
Solana	$210
Ripple	$2.60