SELVI & CIE

# THE MONTHLY LETTER

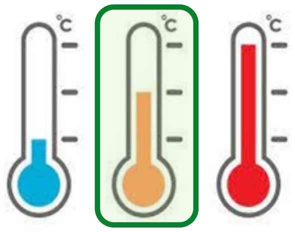
## Tactical update

JUNE 2025

# Symptoms' improvement, essentially

## Global landscape

Inflation in Next 6m



Stance: above central banks targets (ex-China)
Trend: one-off ST shock first

Economic growth in Next 6m

Stance: below LT potential
Trend: weak

### The long-term macroeconomic regime is characterized by irregular and volatile economic cycles

The following factors will negatively impact potential growth: Weakness in the main structural factors (demographics, excessive debt and productivity), Asymmetric risks of deflation or inflation, The uncertain pace of adoption of AI - Issues of deficit financing and debt reduction.

### Cyclical outlook. At the crossroads

A corrosive global Trade war remains a real threat. The flip-flopping on US economic policy is undermining confidence among both domestic entrepreneurs and international partners. EU and China are expected to enter a new regime of fiscal dominance.

### Geopolitics. Finally, expect more of the same?

US voluntarism is coming up against complex realities and antagonistic blocs whose interests are converging. Although the prominence of the power play remains unchanged, intimidation and unpredictability look set to achieve nothing, at least short term.

### Global liquidity momentum growingly uncertain

The ¨plumbing¨ of the US capital market will, again, experience tensions ahead of debt ceiling and above average refinancing needs. Japan is also in the spotlight.

### Negative equity-bond correlation still in place, for now

US CPI volatility will resume as tariffs are passed on to consumers, potentially reaching the key 3% threshold. Japan remains a unique and sensitive case that requires close monitoring.

## Highly volatile investors' sentiment and capital flows

Volatile sentiment due to low visibility. Still, the extreme nimbleness and buoyancy of US retail investors dominate / sustain risky assets for now.

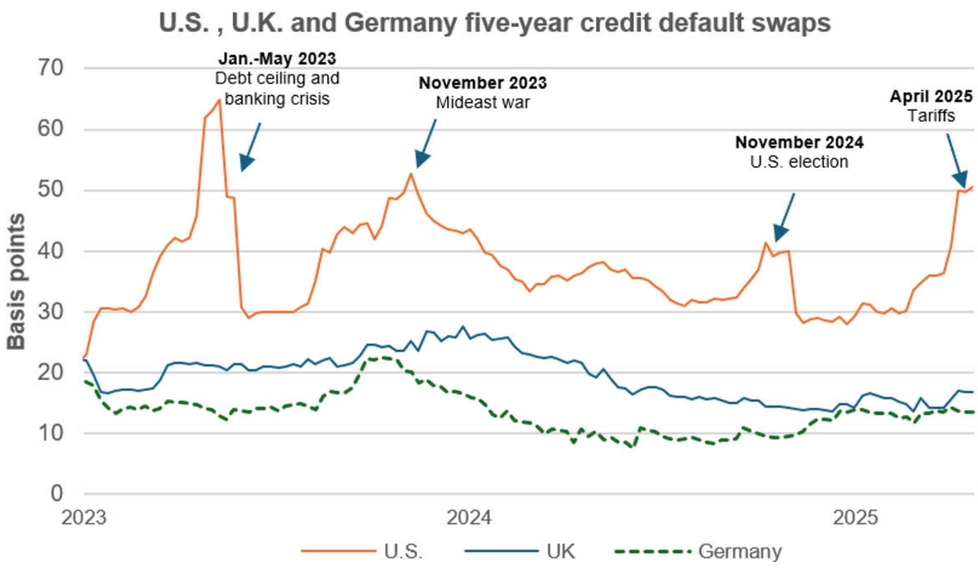
# Global view

## TACO (Trump Always Chickens Out)?

Trump often announces bold policies only to reverse them later, allowing him to dominate the news and mobilize his supporters with dramatic promises. This strategy reinforces his image as a disruptor and makes it difficult for his opponents to maintain sustained resistance. Trump's pattern of reversing bold policies fosters perceptions of unpredictability and unreliability. For his supporters, it can be seen as a betrayal of his tough rhetoric, eroding trust over time. For the broader public and political opponents, it suggests a lack of follow-through and prioritization of spectacle over substantive governance. This exposes vulnerabilities in his leadership, leading to waning public enthusiasm and lower approval ratings.

For a while, S. Bessent was the picture of traditional conservatism when it came to fiscal policy. Things have slipped a bit here too, but it's all part of the Donald's journey! Trump administration is facing significant challenges in getting its ¨big, beautiful bill ¨ approved by the Congress. Summer could be hot.

*US fiscal dominance / prodigality ignited - specific - investors' fears*



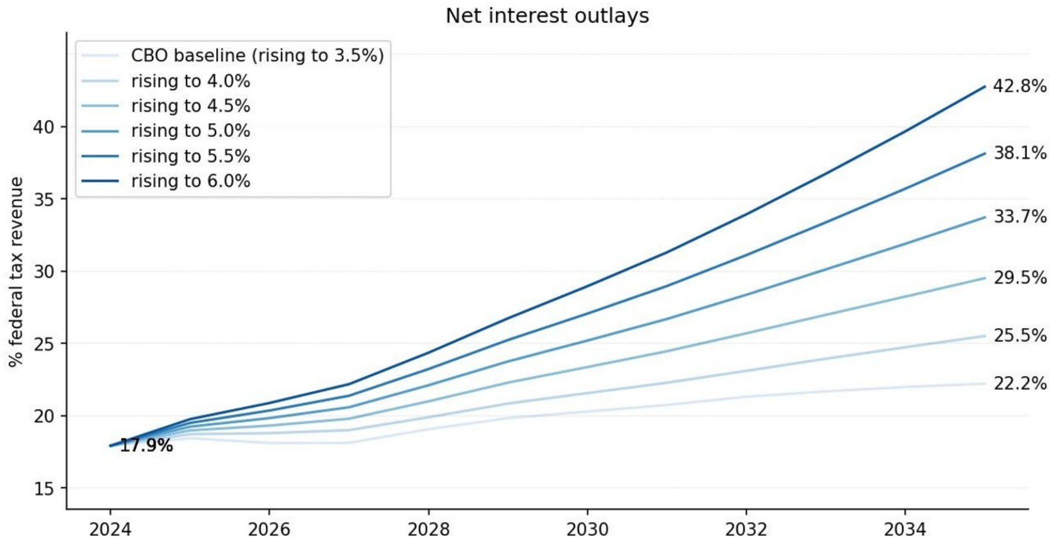

Source: Bloomberg; RSM US LLP

## The outcome of the tariffs remains highly uncertain

Do these tariffs demonstrate Trump's fixation with reducing the US trade deficit? From an economic perspective, history has shown this process to be ineffective, particularly when it is unilateral and affects highly complex production chains in highly competitive countries (e.g. the production of iPhones in China).

Or does he intend to significantly increase tax revenues to reduce income tax as widely as possible? If so, this would seriously penalise the US private sector, affecting corporate margins and consumption by disadvantaged groups.

*Sensitive relations between tax revenue (tariffs) and long rates (vigilantes)*




At best, reasonable power relations could be established with strong partners like China, Europe, and India, while weaker countries like the UK may offer concessions. Japan, Taiwan, and South Korea, with their excess savings, overvalued currencies, and high US Treasury holdings, will be interesting case studies given the US pivot towards Asia. Trump's resurging protectionism is fundamentally counterproductive and ultimately more detrimental to the US.

The US is primarily pursuing a strategy of devaluing the USD to enhance competitiveness. This undeclared approach is a key element of broader economic policy and is more likely to succeed than reversing multilateral trade flows by force.

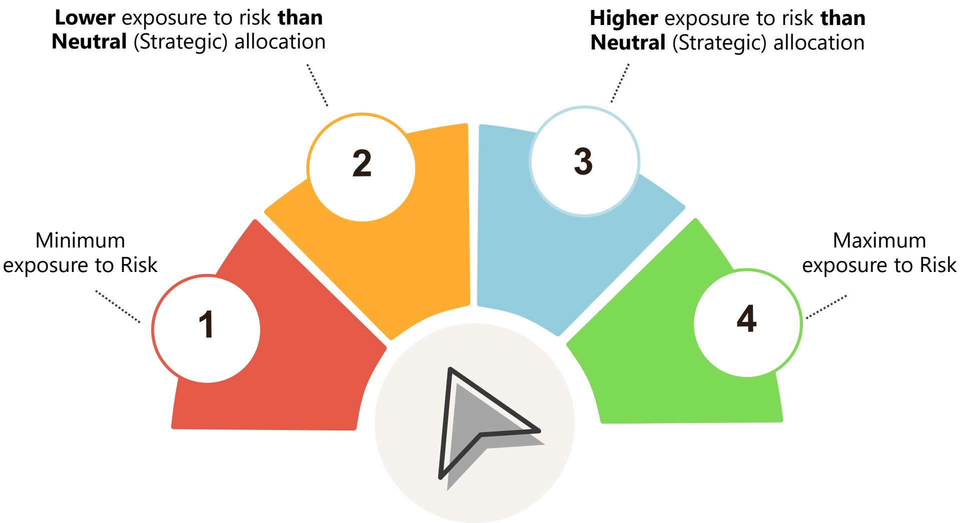
There is a distinct possibility of a new round of global price shocks (supply-driven). The US is likely to experience more difficulties than its trade partners. A new currency regime is in the making.
*The US administration is encountering growing opposition*
*In terms of both international and domestic landscapes, as well as bond markets*

## Asset allocation recommendation

Trump's temporary cessation of trade hostilities has helped to assuage concerns about an imminent recession. This has prompted private investors in the US to seek out investment opportunities.

In terms of trade, further developments are anticipated from both China and the EU. In recent weeks, international capital has continued to leave the US, albeit at a slower rate. Beyond Wall Street headlines, there are now renewed worrying signs in the markets. We are concerned by the rise in global long-term interest rates, which we attribute to an increase in the risk premium. As with record highs in gold and cryptocurrencies, and Japan's inability to control its currency and interest rates, etc., this is an issue that should be given careful consideration. Major central banks, such as the Fed and BoJ, are in a delicate position when it comes to calibrating liquidity provision and policy rate developments.

Our stance on risk assets remains relatively cautious, with a slight underweighting at present.



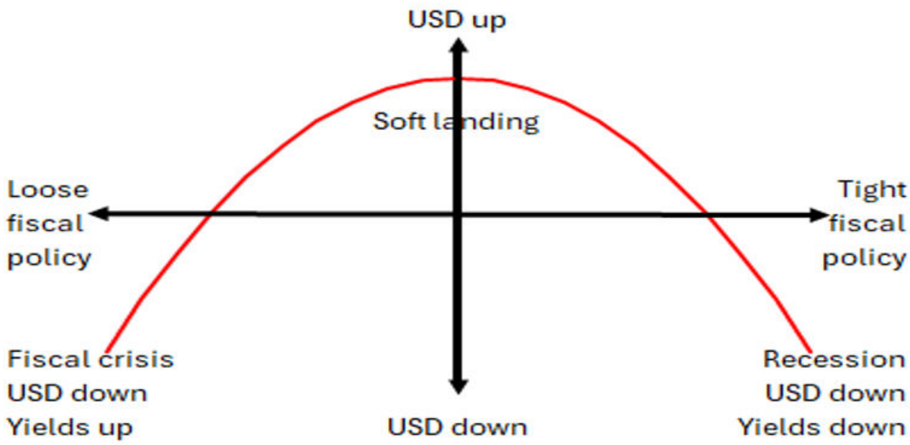
# Currencies

## After the USD smile, the USD moustache

The USD smile was first documented 20 years ago by Stephen Li Jen. This term refers to a situation in which the USD outperforms other currencies in 2 very different scenarios: when the US economy is strong and there is optimism in markets or, when the global economy is doing badly and risk aversion is on the rise.

Should we adopt the same methodology about fiscal policy, there is a risk of losses for the USD, regardless of whether the US government experiences a fiscal crisis or a recession. A fiscal stance that tightens too quickly is the most extreme option. This would result in a sharp closure of the deficit but would force the US economy into a recession and a deep Fed easing cycle. A compromise would be a soft landing, which would be more favourable for the USD. A fiscal stance that is too loose is at the other extreme, leading to a combined drop in US bonds and the USD, as was recently observed. If this pattern continues, it signals a loss of appetite among investors to fund US deficits, as well as an increase in financial stability risks.
*If the Trump administration continues to disregard the fiscal risks and attack former trading allies, the USD is likely to remain unloved*

*The USD moustache*




## The EUR global moment

The EUR has proven resilient in the face of the US tariff developments, demonstrating a notable degree of immunity. The ECB President Lagarde has discussed the possibility of a global EUR moment, emphasising the potential for a coordinated government response to enhance the EUR's international role. This narrative is reflected in part by the recent strengthening of the EUR. If policymakers continue to advocate this approach, we may witness a more rapid accumulation of strategic long positions in the EUR. A currency's global appeal is contingent on the depth of its bond market. A stronger and more global EUR helps to cap inflation, supports the bond market stability, and keeps rates lower.

Over the past decade, 2017 was the best year for the EUR, with a 16.4% gain, while 2021 was the worst, with a 9.5% loss. The close grouping of lines indicates low volatility and high correlation across years. The sharp spike observed in early 2025 indicates a potential breakout or anomaly, attributable to the prevailing geopolitical landscape. Price action may follow a similar trajectory to that seen in 2017, which also experienced comparable geopolitical tensions under the Trump administration.

*A repeat of 2017's strong EUR performance means the EUR/USD could trade 1.2050 by year-end*

## Asian currencies are a game changer

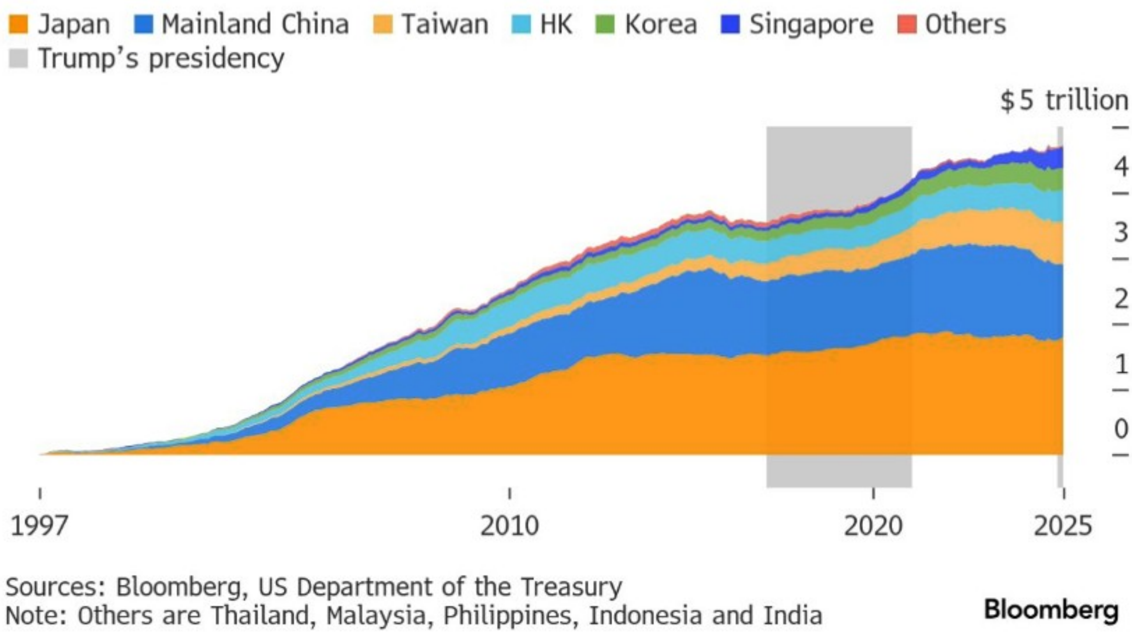
For Asia, a reorganisation of its international relations will represent a strategic shift, as it will be a departure from a strategy that was originally conceived in the aftermath of the 1997 financial crisis. At that time, an excessive reliance on short-term borrowing without the backing of USD assets led to a debt crisis and a sharp depreciation of Asian currencies. The lesson prompted Asian nations to prioritise generating USD through exports to the US, thereby accumulating surpluses that were subsequently reinvested back into American markets. Since 1997, the 11 largest economies have collectively purchased US assets to the value of $4.7 trillion, bringing total investments to $7.5 trillion. In the early 2000s, most USD earnings from the largest Asian exporters to America were reinvested in the equity and bond markets of the United States.

The Global Financial Crisis of 2008 was a significant event that highlighted the vulnerability and risks in US markets. Over the last decade, institutions across Asia have progressively reallocated their portfolios to reduce over-reliance on US assets. By 2024, Asian capital inflows into the US had decreased to $68 billion, representing a mere 11% of trade surpluses with the US.

Then Trump started his second term. The president's commitment to repatriating manufacturing to the US, coupled with his consistent concerns about the use of currency devaluation as a competitive strategy by other nations, stood in direct opposition to the Asian export-growth model. His unexpected announcements regarding tariffs led to a swift response from Japan and South Korea, prompting the initiation of negotiations. Investors have expressed concerns that FX could be included in trade negotiations, given that China, Japan, Taiwan, South Korea, Vietnam and Singapore are on the currency monitoring list by the US Treasury. Despite Washington's denials, speculation is growing. Investors are closely monitoring the actions of Asian companies, who are rapidly divesting their USD holdings. It is evident that Asian currencies are significantly undervalued, as indicated by several key indicators. On average, major Asian currencies — including the yen and yuan — are trading at 59% weaker than PPP suggests.

According to data from the US Treasury, the Asian nation sold a net total of $172bn worth of US assets last year, which is an increase on the $64bn recorded in 2023. Two years of reductions couples with the decline in Treasury holdings in March indicate that the risks of such a historic readjustment are possible. This poses a risk to US markets as well. China and Japan collectively hold $1.7trn in US Treasuries. Nippon Life Insurance, the largest domestic life insurer, is seeking alternatives to Treasuries in Europe, Australia and Canada. UniSuper, the largest pension fund in Australia with $96bn of assets, has announced that its investments in the US have likely reached their peak. The current-account surplus of Asia's 11 largest economies totalled more than $900bn last year, a potential investment in foreign markets.

*Cumulative net purchase of US assets since 1997*




For decades, Asia's export-oriented companies followed this strategy. Even prior to Trump's second presidential term, capital flows from Asia to the US had already declined.

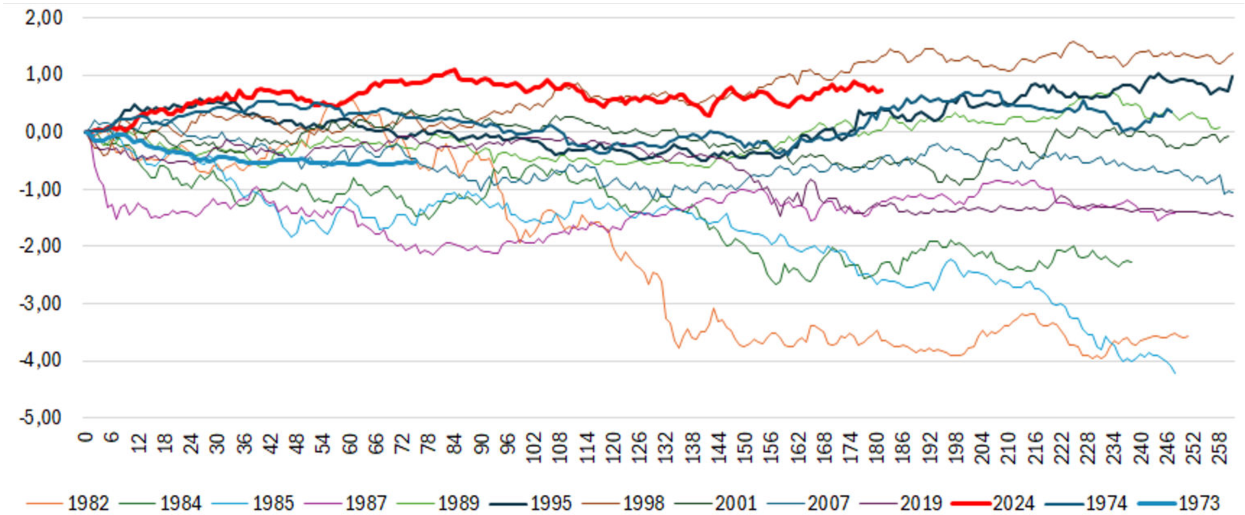
*There are now signs that this trend will accelerate. Asian investors have several reasons to seek out alternatives. Trump's approach is causing significant disruption to the logic behind Asian $7.5trn of investments. The unwind has started*

# Bonds

## Fed preaching patience

Following a volatile month, the price action in Treasuries became much calmer as long-end US and Japanese yields found a welcome respite from panicked sellers. If this easing cycle looks unusual that is because it is. It is not typical for bond yields to be higher this far after the Fed's first rate cut. The only comparable developments that appear to be similar are in the 1970s and 1998. These scenarios are not inspiring, as the rise in yields were mostly due to the rebuilding of term premium. This is not the desired rise in rates.

*This easing cycle is not typical*




Fed officials have indicated that their cautious approach to policy rate adjustments is expected to persist for several months. The Trump administration is implementing tariffs. The Fed should take time to ensure long-run inflation expectations remain stable, as businesses and consumers anticipate prices will rise in the near term. Fed officials have indicated that the central bank is not expected to consider a rate cut in its June or July meetings, with September being the earliest possibility.

Given the current debt and deficit trajectories, central banks' engagement in quantitative tightening (QT), and the evolving demand landscape, there is a strong argument for higher long-end yields and a rebuilding of term premium. This transition is likely to occur in stages as investors adapt to the shifting paradigm.

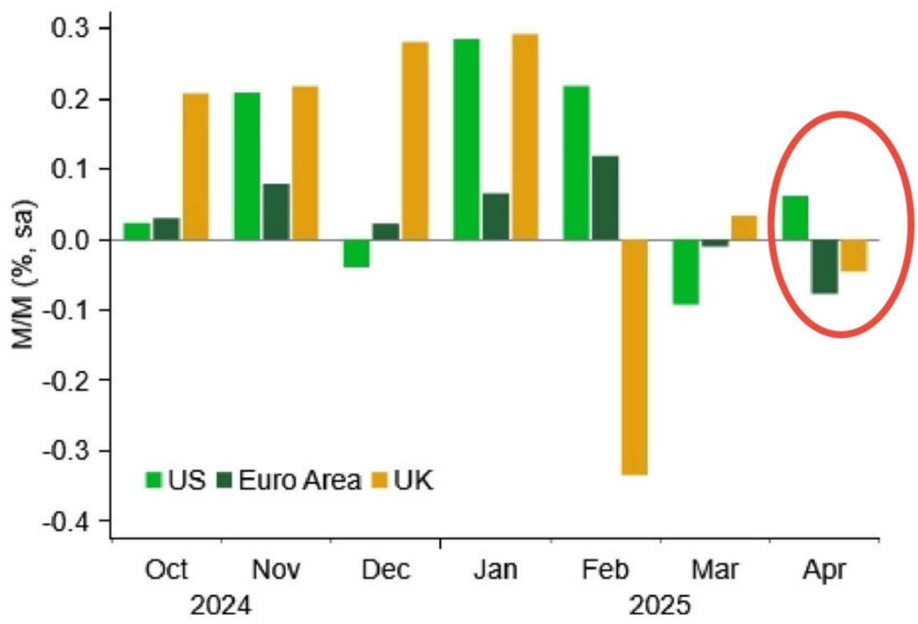
*Due to economy resilience, we forecast only 2 cuts this year (October and December) and 4 over the next year*

*The US 2-year yield will stay anchored, while the US 10-year yield will experience upward pressure*

## One of the best inflation hedging opportunities in a generation

Long-dated Treasurys have demonstrated a notable resilience despite prevailing fiscal and political uncertainties, with the 30-year nominal yield reaching 5.0%. The 30-year TIPS is offering a 2.7% real yield – the highest level recorded for 20 years - and the 30-year breakeven is anchored at 2.3%. This is indicative of a lack of alignment. Long-end real yields are providing investors with a substantial return, while the market does not adequately reflect the structural inflation risk associated with fiscal largesse. The risks associated with a more politicised and less independent Fed, which may compromise its credibility, are increasing. Whilst the effects of tariffs are unclear, indications are already emerging that inflation is rising in the US and falling in other regions.

*Diverging signals from monthly change in core goods CPI*




We anticipate that headline inflation in the euro area will fall below target in the coming months, primarily due to lower activity and a stronger EUR.

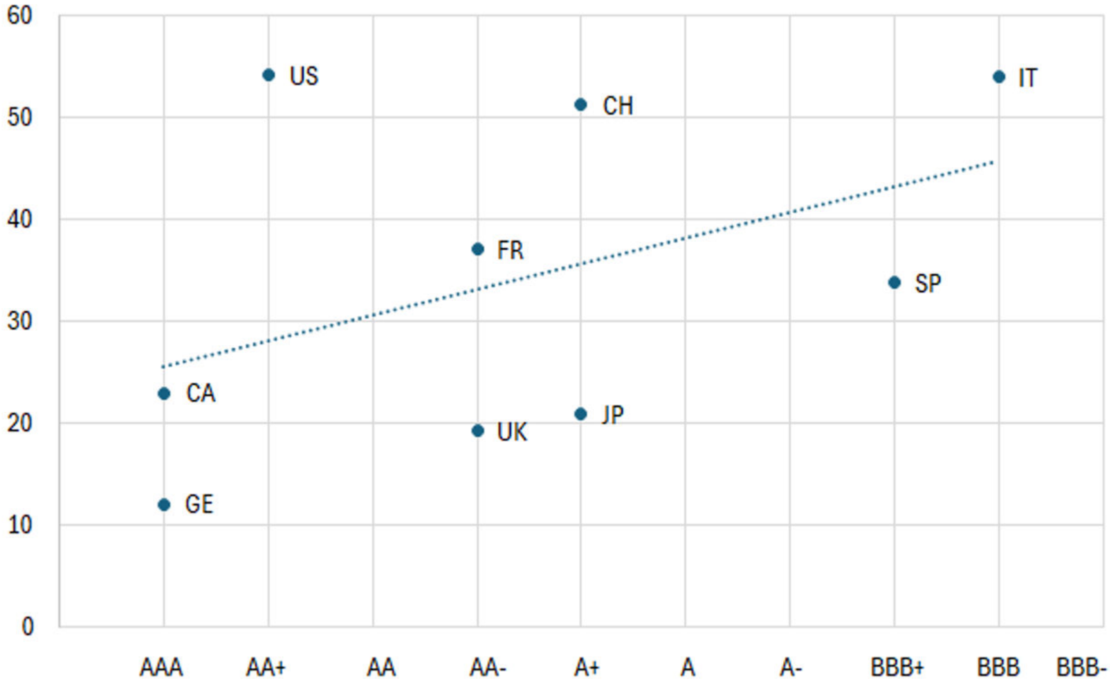
Seasonally adjusted core goods inflation indices are providing equivocal signals. We are observing an uptick in the US back into positive territory, while in the euro area and UK have reverted to negative territory. It is anticipated that this wedge will continue to expand in the forthcoming months.
*The US break-evens are ignoring persistent upward pressure from budget spending. The US TIPS provide attractive real yields. At the opposite, favour European nominal bonds over the US ones*

## US Big Beautiful Bill (BBB): the name suits well

Moody's recent downgrade has prompted a re-evaluation of the potential for a US debt default within the market. The US government's capacity to issue in its own currency supports its ability to meet its obligations, which raises questions about the value of those repayments.

The US government 5-year CDS has been rising. Although CDS pricing might be influenced by the risk of a technical default related to the debt ceiling, such an event would still be considered a default. The likelihood of a near-term US default remains very low. However, the cost to hedge US government debt against default aligns with ratings of Baa1/BBB+, akin to those assigned to Italy.

*The US CDS spreads already fits with a BBB*




*Further US downgrades are probable, in accordance with the CBO's predictions, unless measures are implemented*

## The IG credit is resilient

The euro area's growth outlook remains lacklustre, but a still active ECB could prove supportive. Investor interest in carry remains strong. The rate of asset accumulation for this segment has increased. The robust fundamentals and supportive demand for IG spreads. IG spreads are trading just below their long-term average, while HY credit spreads are more expansive. The impact of the rise in rates has been mitigated by the high average maturity of corporate debt.

Overall, while credit spreads are currently tight by historical standards, it is likely that fundamentals will be the key driver of performance. It is generally positive news that credit metrics remain sound, and a more cautious approach to leveraging is being adopted. Furthermore, the current level of absolute yield remains attractive, and the resilience in economic activity could prove supportive for corporate bond performance.
*We are committed to maintaining a portfolio of assets of the highest quality*

# Equities

## Foggy

Political and judicial opposition is organizing. Donald Trump is weakened. A US court surprised everyone by ruling that part of the customs duties imposed by Donald Trump were illegal. A few hours later, a US appeals court suspended the lower court's decision. Without ruling on the merits, it reinstated the customs duties, the time to deliver its own judgment.

American instability is plunging businesses and consumers into a fog, and their morale is yo-yoing. The Conference Board Consumer Confidence index fluctuates according to Donald Trump's statements. The uncertainty will last. Non -US trade negotiators are floundering, and no company, American or foreign, knows what tariffs will be imposed. Is it really in the interest of US trading partners to sign an agreement quickly? Believing it was a diplomatic success, the United Kingdom did so on May 8. Despite the superlatives used by Donald Trump and Keir Starmer, the British Prime Minister, nothing has been officially signed. It was simply a statement of principles.

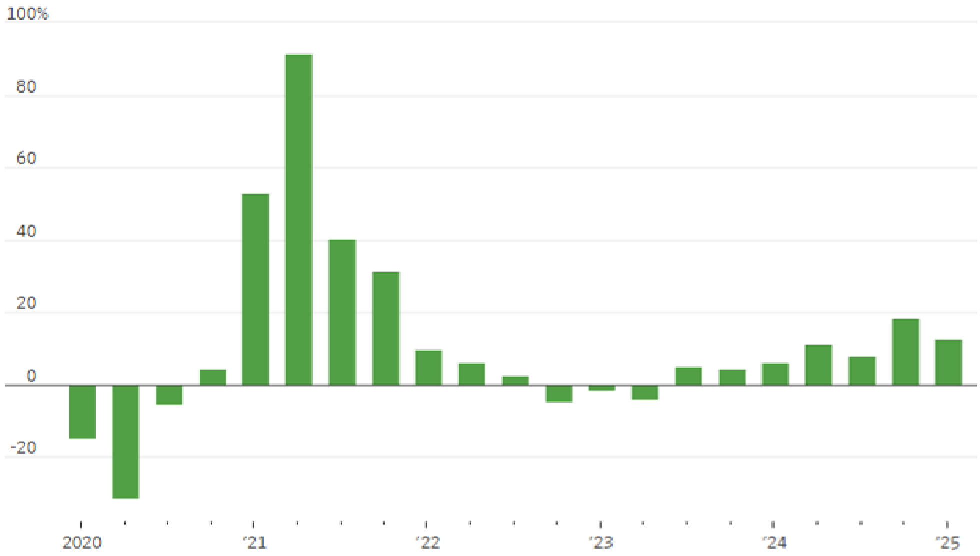
Take the example of a container being shipped to the United States today. The physical travel time—it takes about three weeks between China and the US West Coast—and the tariffs could have changed ten times. US Customs themselves don't seem to understand. Another example is buying a car in the United States: should you buy it now to avoid higher taxes later, or buy it later if Donald Trump loses his tax war in court?

In his posturing, following his approval of Nippon Steel's takeover of US Steel, Donald Trump has just raised tariffs to 50% for steel and aluminum, primarily affecting Canadian, Mexican, and Brazilian exporters as of June 4. The United States imports 25% of the steel it consumes and more than 50% of aluminum. Very bad news for the American auto industry.

Finally, the uncertainty surrounding negotiations with the United States is all the greater because American threats don't only come from tariffs. The US budget - the big and beautiful bill - recently passed in the House of Representatives (it still needs to pass the Senate), contains a clause that greatly worries investors. "Section 899" allows for additional taxes to be imposed on companies and investors from countries whose taxes are deemed "unfair," although the term is not clearly defined. Failure to implement high tariffs poses a major risk for Donald Trump, as it would call into question his promises of tax cuts.

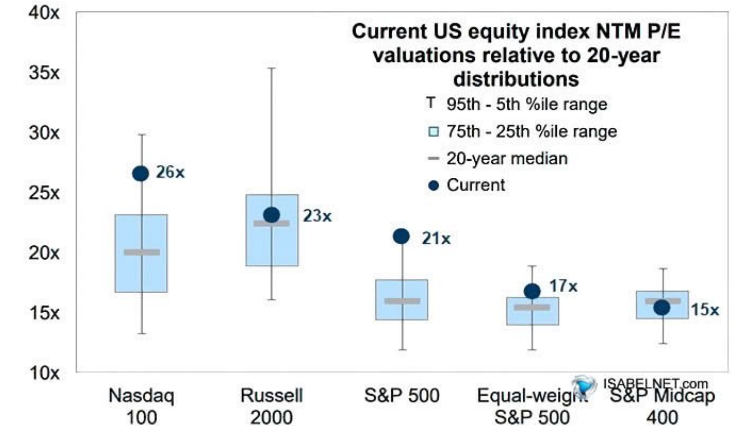
Recession or not? History shows that protectionism and nationalism end in recession and war. 70% of US corporate strategists and CFOs anticipate a recession in the second half of 2025. Yet, S&P 500 profits grew 13% in Q1 25, higher than the 7% growth estimated at the end of March. US companies are unable to make forecasts and many have suspended them for 2025. The excellent quarterly results, coupled with Donald Trump's backpedaling on tariffs on April 9 - TACO, Trump always chickens out -, led to a powerful rally (from April 9 to mid-May) of 23% for the MCSI World and the S&P 500, 31% for the NASDAQ and 20% for the Euro Stoxx (which had fallen less in the mid-February correction to April 8).

*S&P500 quarterly earnings, change from a year earlier*




Note: 1Q 2025 includes estimates for companies that have not yet reported.
Source: FactSet

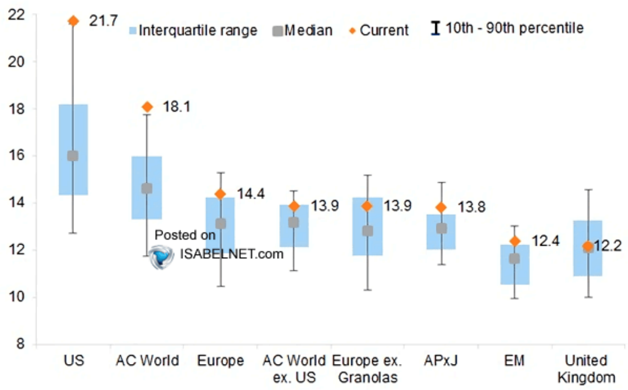
**Exhibit 26: US equity index P/E valuations vs. history**




Source: Compustat, FactSet, IBES, Goldman Sachs Global Investment Research

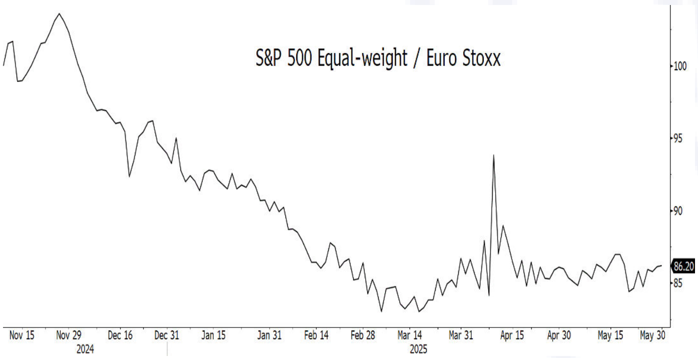
**Exhibit 26: MSCI Regions valuations**

12-month forward P/Es relative to the last 20 years - STOXX 600 P/E for Europe




Source: FactSet, Goldman Sachs Global Investment Research

But the hardest part is yet to come, starting in Q2 25. US companies are warning about earnings amidst the total uncertainty surrounding tariffs, inflation, and supply chain disruptions. The S&P 500's valuation is high by historical standards, which is why we have been favoring non-US equities for several months now. According to several metrics, UK equities are the most attractive.




Despite improved relative performance since mid-March, the S&P 500 and S&P 500 Equal-Weight have underperformed the Euro Stoxx by 10% and 14% respectively in 2025. Over the first five months of 2025, the return of the US stock markets are around 0%, while the DAX is up 21% thanks to defense stocks and those linked to the €500 billion plan, the IBEX is up 22%, and the FTSE MIB is up 17% thanks to the banking sector. France is lagging behind due to the luxury sector and the damaging impacts on its exports to the United States (trade war).

Europe is expected to continue to outperform US stocks due to valuation, risk premiums, and patriotism (why supporting the assets of a country that attacks us!?). US and non-US investors will continue to diversify. The "dollar" risk is also worth considering. For a euro investor, the performance of US indices is –9% in 2025.

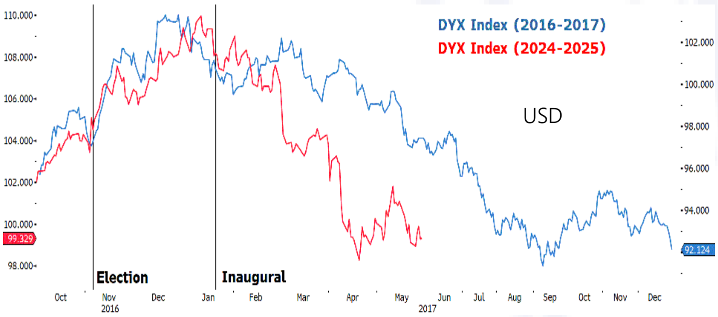
In terms of sectors, we overweight the boom in industrial investment spending (Capex), the financial sector, and consumer staples (defensive and less affected by the trade war).

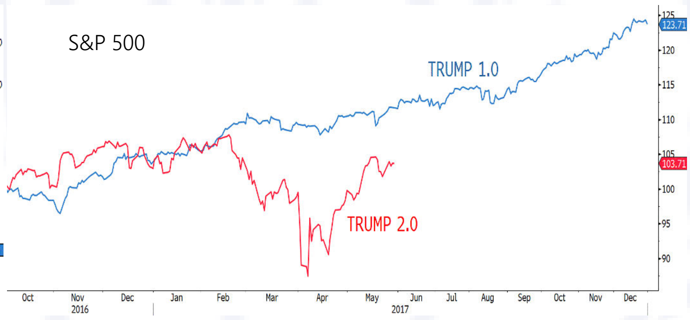
European defense is essential despite exceptional stock market performance since February 2022 and seemingly very high stock market valuations that reflect the strong growth in revenues and profits over the next five years at least. Germany and Sweden have validated a military spending/GDP ratio of 5%!

The other Capex “megatrends” are electrification (EV, batteries) favoring leaders like BYD and CATL, the energy transition (Siemens Energy, GE Vernova), AI and its electricity needs (Vistra, Constellation Energy), reshoring, space which is becoming a strategic commercial (telecommunications), geopolitical and military “zone” with Donald Trump’s “Golden Dome” project (Boeing), and industrial metals.

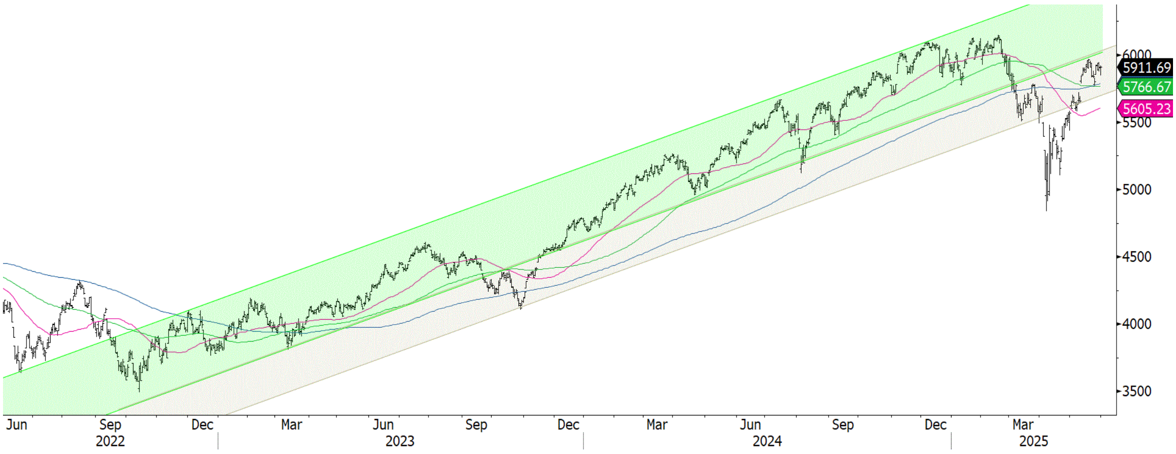
As with the dollar, there is a similarity in the behavior of the S&P 500 between Trump War 1.0 (January 2017-January 2021) and Trump War 2.0 (January 2025-). In fact, Donald Trump is predictable in his negotiation process. He always backtracks. Moreover, the acronym TACO recently appeared. He threatens hard, but he is a "chicken." We observed this during his first term. Stock markets and interest rates have a great influence on his decisions. We still believe that the “Trump put” is valid. However, it is difficult to find the timing of the risk-on and risk-off. We live from day to day.

*The chart below would show a similarity in the S&P 500's performances due to Donald Trump's predictable behavior. In conclusion, the rest of the year colud be positive for the S&P 500*



*The S&P 500 has twice failed to re-enter the upward trend. We could return to 5,750 to complete the inverted head and shoulders pattern, to resume an upward trend on good technical grounds*



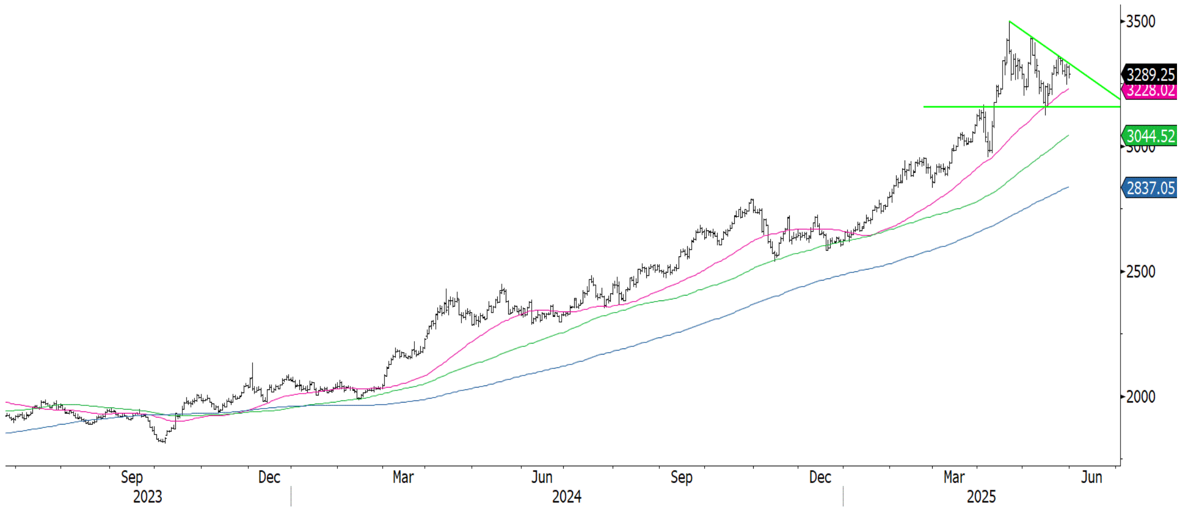
# Alternative Investments

## Gold and Bitcoin consolidation

The dollar and interest rates are no longer falling, favoring a consolidation of these two assets. In the current environment, they share similarities that make them attractive: limited supply and independent assets.

The price of gold is in a technical triangle with a support at $3,150, where we would be buyers. Other favorable points are gold's outperformance in times of economic uncertainty, political and geopolitical conflicts, rampant debt and deficits, and monetary risks, “Fiat currencies”. Central banks continue to accumulate gold.

*Gold price*

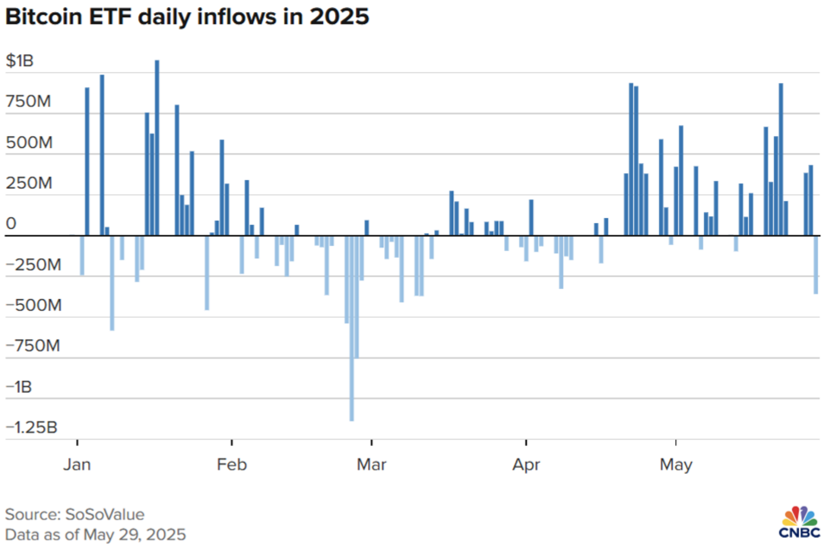



Bitcoin is also experiencing a pause, with increased volatility, of course. With the creation of financial products based on bitcoin and Ethereum, the cryptocurrency segment has become more correlated with stock markets and the technology sector in particular. But prices are expected to rise again this summer with the announcements on digital asset regulation and the feasibility of a US strategic reserve of bitcoin. In early June, a vote in Congress is expected on the "GENIUS Act," the Guiding and Establishing National Innovation for US Stablecoins, with a favorable outcome for digital currencies.

The oligarchs within the White House and companies close to them are accumulating bitcoins with this in mind. Trump Media, a company run by Donald Trump Jr., wants to build a bitcoin stash equivalent to $2.5 billion; to this end, Trump Media & Technology Group (TMTG) wants to issue $1.5 billion in shares and $1 billion in bonds. These oligarchs who govern the United States want to enrich themselves. To follow in terms of performance, much less so from an ethical perspective.

Donald Trump's disjointed trade war has a strong chance of ending in a recession, forcing the Fed to take action with monetary support.

*Between mid-April and end of May, inflows into BTC ETFs increased sharply.*




Oil, Brent prices between $65 and $40 in the coming months: weak global growth, rising non-OPEC production, and OPEC+'s exit from its restrictive production policy to regain market share. Saudi Arabia is paying less attention to prices, as it increasingly relies on debt to finance its budget and projects like Neom. In July, OPEC+ will reinject 411,000 barrels/day. Saudi Arabia had made the greatest effort, reducing its production by 20% to 9 million b/d over the past three years, and it wants to quickly put at least 1 million b/d back on the market. A drop in the price of oil will please Donald Trump due to a decrease in inflationary pressures in the United States, but the downside of too low a crude price for American producers will be the difficulty in producing more, as it is no longer profitable enough.

Industrial metals are becoming a strategically important asset. Rising military spending is favorable for these and for rare earths needed for advanced weapons such as aircraft, munitions, and bombs. The United States is underpowered in the production of strategic metals, dependent on China. Past underinvestment is now weighing on supply. Experts fear a copper shortage in the coming years. This is not just for defense, but also for electrification and the energy transition in general. We remain positive on industrial metals.

*Copper vs. Mining ETF (PICK US). Buying opportunity on mining companies, which are showing a significant stock market lag behind industrial metal prices, specifically copper in the chart below*