J.P.Morgan | Data Assets & Alpha Group

INTERNATIONAL MARKET INTELLIGENCE | MORNING BRIEFING

JUNE 5, 2025

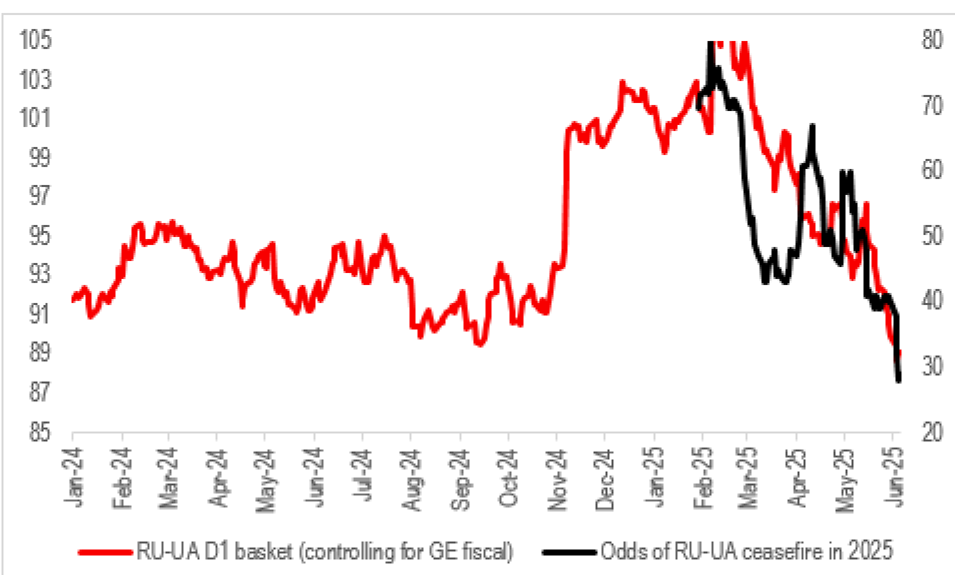
IDEAS & INSIGHTS– IN BRIEF

- **OVERNIGHT RECAP** (link) **& TODAY'S CATALYSTS** (link)
- ***MKT INTEL VIEWS:*** **Relatively quiet on trade** with the EU-US making progress in trade talks but **no confirmation of Trump-Xi call**. The more **notable price actions was in UST** on a mix of: a) **3x downbeat US growth indicators** (ADP, ISM-Services and Beige Book); and b) **relatively favorable fiscal news as CBO score on the Big Beautiful bill improved (+$2.4T to the deficit** over 10 years vs +$3.8T in previous preliminary assessment), **while a separate CBO analysis suggested it could also be more than offset by tariffs** (**-$2.8T to the deficit** over 10 years). Overall, **data** are mixed and suggest some slowdown but **don't imply a big increase in recession odds**. **Friday's NFP will provide a clearer signal**. In **EUROPE**, a few things to note. **Odds of a RU-UA ceasefire in 2025 dropped below 30%** post Trump-Putin call and bring some possible downside risk to some themes. **German Equities** are one of our key thematics and we welcomed the positive reaction to the EUR46bn tax break package. That said, the size of the move was a bit surprising given a lot was already in the **coalition agreement.** There is increasing discussion around some **internals rotation in Europe with Semis taking the driving seat**. Looking at **ASIA**, JPM Econ thinks **JAPAN underlying wage momentum remains on an uptrend** as there was some noise in April data. Meanwhile, **long-end JGBs are lower** on a weak 30Y auction and with some thrust coming from positioning. We **keep conviction on SOUTH KOREA and expect Kospi2 to test July 2024 levels.** Post elections, there is a path to a meaningful policy change (Governance reform & sector specific policies) and expansionary fiscal**. The backdrop is also supportive** considering USD weakness, attractive valuations, earnings revisions and foreign flows inflecting from low levels. **In CHINA, AI plays rallied on China AI infra push while JPM Econ digs into** why China's **services consumption** share is low (18% of GDP vs 46% in the US) and why this needs to be a priority in policy.
- **TODAY'S CATALYSTS**: a) Merz-Trump meet; b) ECB; c) Job Cuts + Claims; c) AVGO earnings (after close); e) NATO ministers meet in Brussels
- ***EU SEMIS*:** Best sector in Europe yesterday. Positive momentum in space, boosted by US peers and ON Semis noting signs of recovery in analog and strength in AI business.

- ***FLOWS & LIQUIDITY***: Section 899 could affect up to $350bn of annual investment income. A 20% tax rate could see ~$70bn of tax revenue. Past experience suggests even modest taxes on capital can result in notable shifts for investors and issuers. View gap that has opened between short interest of SPY and QQQ ETFs as a bullish signal.
- ***RETAIL RADAR*****:** As the market broadly recovered, we observed increased profit-taking flows from retail traders over the past month. In May, they net bought $23B, which is ~$17B less than March and April, but aligns with the average monthly net imbalance for the year ($25B).
- ***CHINA CONSUMPTION*****:** Many agree China needs to boost consumption but disagree on how. Low consumption mainly due to services, not goods. To boost goods consumption, reducing overcapacity is more important than boosting demand - but team thinks policy should focus on service.
- ***US TREASURIES*****:** Yields declined yesterday after disappointing labor market and PMI data, but some can also be explained by less negative fiscal news. CBO scored One Big Beautiful Bill Act at $2.4tn over the next decade vs tariff revenue of $2.8tn over the same period if rates made permanent

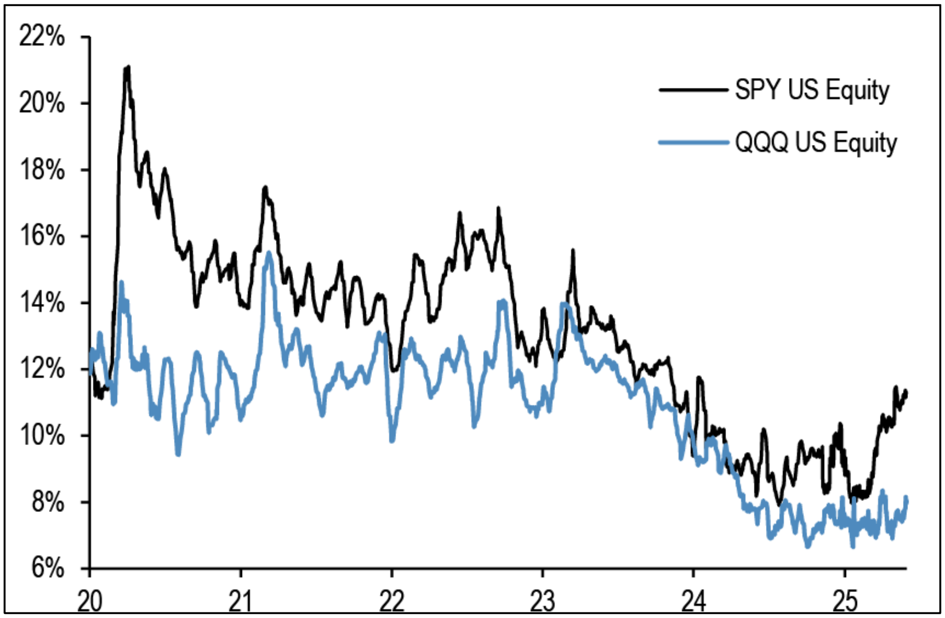
The **II Survey** is not only an important measure by which our analysts are measured internally, but also an important part of their own personal franchise. If you have found our work useful over the past year, we would really appreciate a 5-star firm vote and individual votes for all sectors that you have engaged. You can sign up to vote **HERE**, find voting instructions **HERE**, and you can find full analyst roster across the JPM Research Department **HERE**. **The Market Intelligence team (Andrew Tyler, Federico Manicardi, Ellen Wang, and Victoria Campos) would also appreciate a vote in the Best Specialist Salesperson category for Macro, if you have found our work useful.**

RU-UA BASKET VS ODDS OF CEASEFIRE



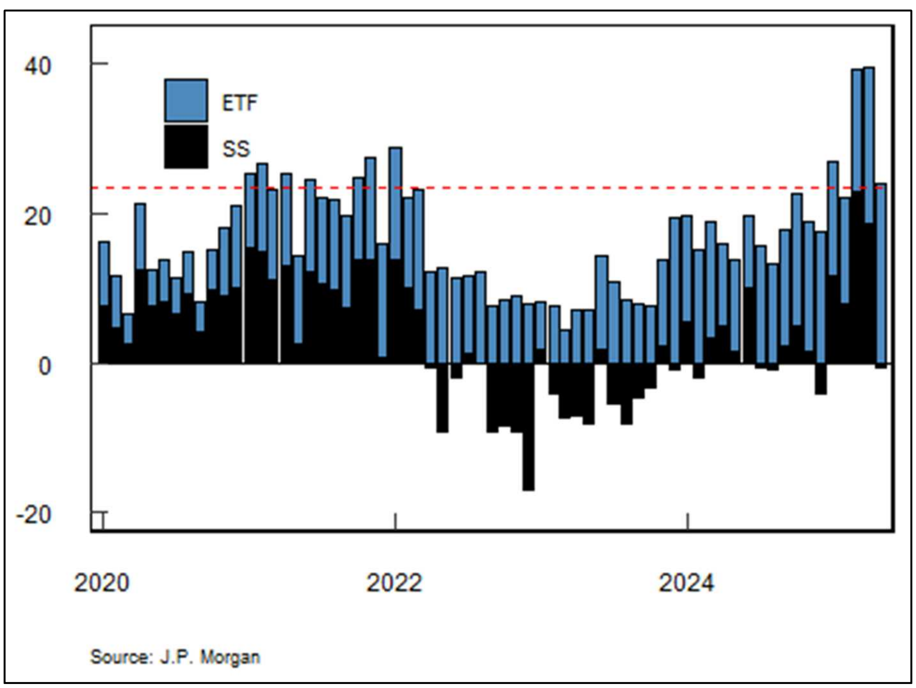
Source: S3, J.P. Morgan

SHORT INTEREST ON THE SPY AND QQQ US ETFs



Source: S3, J.P. Morgan Flows & Liquidity.

RETAIL SLOWED DOWN IN MAY WITH MONTHLY NET BUYING DROPPING TO $23B



CATALYSTS TODAY ([WEEK AHEAD](#))

- **MACRO DATA: US:** Challenger Job Cuts, Trade Balance, Nonfarm Productivity, Unit Labour Costs, Claims; **EU**: GE Factory Orders; GE, UK Construction PMI; IT Retail Sales; EA PPI; **Asia**: China Caixin May Services PMI; Australia Apr Trade; Phils, Taiwan, Thailand May CPI; Singapore Apr Retail Sales
- **CENTRAL BANKS**: **FED**: Kugler, Harker; **BOE:** Greene, DMP 3M & 1Y CPI Expectations; **ECB:** Rate Decision
- **EARNINGS: US:** AVGO
- **OTHER:** NATO Defence ministers meet in Brussels, Japan 30Y Auction, Germany's Merz and Trump US Talks

IDEAS & INSIGHTS

SALES TRADING EU SEMIS (YANNIS BOSTANTZOGLOU)

SEMIS BEST SECTOR IN EUROPE:JPM EU Semis basket +3.4% (JPEUSEMI Index) led by STMicro +8% and Infineon +5%. Space traded well in Asia, peers up ~3% in Japan. Positive momentum in the space as US peer ON Semi +11.4% post positive takeaways at competitor Global Tech conference, reiterated Q2 guidance and noted signs of recovery in analog and strength in AI business. ON Semi said its automotive segment is expected to reach a bottom in 2Q, while the industrial market "is going to be better in the second half of the year than it's in the first half". STM outperforming given its been the YtD laggard (flat vs IFX +15%) so definitely reversion / covering there. Would note ON Semi -25% YtD and NXP Semi -4% YtD too. The other side of the AI trade? Worth flagging short base in STMPA ~6% of free float (vs 2.1% at the end of Q1, top of recent range) and STMMI short interest smaller at nearer 2.8% of FF. IFX short base only ~1% of free float (as mentioned, IFX has outperformed STM ~15% YtD)

JPM RESEARCH: RETAIL RADAR (HERE)

- **For the latest data, including intraday updates, visit Investable AI/Data Analytics.**
- As the market broadly recovered, we observed increased profit-taking flows from retail traders over the past month. **In May, they net bought $23B, which is ~$17B less than March and April, but aligns with the average monthly net imbalance for the year** ($25B), and at a similar level as the period of 2021 meme stock mania. Compared to previous months, May saw only three days where the net buying exceeded the $2B threshold, while 4 days of net selling, primarily occurring in the last two weeks (Figure 1). **The sentiment score dropped to a session low of -0.7** (Figure 2). We

estimate that retail investors gained 4.9% in May, slightly below the market performance of 6.1%. YTD, **their portfolio lost -2.6% vs. S&P up 1.8%** (Figure 3).

- Over the past week, retail traders net bought +$6.8B, +0.4z above last 1Y average. ETFs contributed $4B to the net imbalance. Demand for Fixed income ETFs increased, led by money market / ultra-short ETFs such as SGOV (+2z), and interest in GLD (+0.5z) and IBIT (+0.5z) remained.
- Among single stocks, retail traders aggressively bought TSLA (+$4.4B) as the stock sunk by 8%. Notably, 5/30 marked the largest daily net buying in 2 months. On the other hand, NVDA continued to lead the selling flow (-$2.2B), marking the longest selling streak of 17 days since 2018. At the sector level, both Materials (-1.4z) and Financials (-1.0z) experienced strong outflows, while Health Care (+1.5z) and Energy (+1.1z) saw above-average demand.
- Retail option traders continue to increase their market share, returning to the 18% level of total market activity (Figure 7). Over the the past week, they net sold $4.1B of delta and -$23B of gamma, marking the largest gamma imbalance since mid-Feb (Figure 4). S&P options accounted for -$18B of gamma while Nasdaq options accounted for -$3B, with balanced supply from calls and puts.

OVERNIGHT RECAP

- **EU: European Equities closed higher** (UKX 0.2%, SX5E 0.6%, SXXP 0.5%), **though off intraday highs.** Stocks initially rallied on headlines of German corporate tax cuts, with moves also boosted by positive PMI revisions (EA Composite above 50 again). Notably the rally saw a pullback in MOMO (-1.2%), with the short leg (1.2%) leading gains. This also saw Defence (-0.8%) and Banks underperform. Semis (3%) were the best performing sector, line with a global recovery. EU rates closed mixed (UK 2Y -2bps, 10Y -3bps, GE 2Y 1bps, 10Y flat).
- **US: US Equities closed mixed** (SPX flat, NDX 0.3%, RTY -0.2%), **unwinding earlier session gains.** A slurry of weak macro data releases saw gains erase and recover, with SPX ultimately ending the day flat. High Short Interest (1.3%) again outperformed, and Tech continued to grind higher, with Semis (1.6%) extending gains. US rates notably rallied across the curve (2Y -8bps, 10Y -10bps), in line with soft data.
- **Asia**: **APAC stocks are mixed** (NKY -0.4%, HSI 0.6%, CSI 300 0.1%), **amidst various catalysts** incl. Japan bond market, SK elections and Trump trade comments on China. Japan lagged regional peers after a weak 30y bond auction. Cash Earnings data also came in softer than expected, albeit higher YoY. Despite the broader pullback in equities, Semis (1.2%) continue to move higher. In China, HSTECH (1.5%) is rallying after China vows to accelerate innovation and application of AI to support industrial development. Regionally, Korea outperformed (KOSPI 1.3%), extending post-election gains. EU and US futures are generally lower (SX5E -0.1%, SPX -0.1%).

POSITIONING INTELLIGENCE

POSITIONING INTELLIGENCE IS NOT A PRODUCT OF RESEARCH

Report: *Prime Time / Monthly Wrap* | Performance, Flows, and Positioning Recover Further

Summary: As risk assets continued to recover from prior volatility, **HF performance remained positive** (+3% globally MTD), while flows and positioning in equities turned higher. In general, **positioning is no longer "light"** with our US TPM level hitting neutral about a week ago, before ending May around the 35th %-tile. In addition, HF net leverage has also started to increase and is around 5yr average levels. **Gross leverage and gross flows remain elevated among HFs**, while Momentum and Growth factors have done very well lately and could pose some risks.

Mag7 stocks performed quite well over the past month and have seen HF buying return in the past couple weeks. **Cyclicals vs. Defensives positioning among HFs has rebounded back towards highs in N. Am.**; however, at least part of this is driven by some Mag7 exposure. HFs remain bearish on tariff- and consumer-sensitive areas of Retail and Industrials, while Energy is the most net sold sector on both a 1m and 3m basis when looking at combined flows (HFs + ETFs + Retail). **In Europe, HFs remain quite bearish on Autos** though there was some buying. Net positioning in EU Telcos, Energy, Semis, and FBT all remain quite low vs. the past. In Asia, HF performance continues to be quite strong, while **Japan was the most bought region among HFs this past month**.

What we were watching in May (from prior Monthly Wrap) & what transpired:

1. **Do HFs cover shorts more aggressively?** No. Despite the positive market rally, we have yet to see HFs cover shorts in any meaningful size. This remains something we'll be watching closely. Notably, some of the increased buying in late May came from longs being added.

2. **Does 4wk TPM swing more positively and perhaps lead to tactical negative set-up for US stocks?** Yes / maybe. The 4wk TPM change hit >1.5z by mid-May and eased by month-end to +0.7. Whether this is followed by a bit of equity weakness is still TBD.

3. **Does EU vs. US performance stay in favor of Europe?** Not really, but no large swings in May. We thought that in the near-term, the US could relatively outperform or hold up well, which has been the case. For Europe, HF flows have been turning a bit more cautious lately, but with CTA positioning at

highs and EU ETFs still seeing inflows, the 1m flows hit an elevated level in May and the 3m flows are still high.

4. **In Europe, do crowded sector / thematic / factor positioning risks persist or reverse?** Persist, so far. Despite a dip in 1H of May, EU Momentum (JPEPURM Index) still ended the month with a gain, while HF net positioning to the factor remains elevated.

5. **Do stretched CTA divergences persist?** Yes, though they've come down from the most extreme levels. Relative positioning in EU vs. US stocks fell from the most extreme levels, but still favor EU. Japan vs. HK positioning (towards bearish Japan vs. HK positioning) as recovered slightly from lows.

What's catching our eye now?

1. **HF leverage** rebounded in May with gross leverage back at highs. While a lot of the rebound was due to equities rallying, gross flows remain at historical highs on a cumulative basis as well. Net leverage also had one of its largest jumps on a 4wk basis (about +2z) when looking across All Strategies.

2. **Momentum** continues to perform well in both the US and Europe lately. In particular, the increased buying of US momentum by HFs this past month is notable. Also notable is the rebound in Eq L/S long leverage recently, which continues to correlate with Momentum longs' (JPMOWIN) relative performance. While not at the most extreme we've seen, various metrics of flows and positioning suggest that US Momentum's recent gains could slow or reverse. In Europe, we saw selling of Momentum, but net exposure remains elevated at the 93rd %-tile

3. **Growth** has also become more notable as it was bought and performed well in both the US and EMEA. The net buying of EU Growth over the past 2 months is now at one of the more extreme levels we've seen.

4. **AI TMT and Global Semis** positioning levels were near the low end of their upward trends. Given the positive earnings recently and increased flows, this could see a bit more upside in the near term.

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