ING Investment Office

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Monthly Investment Outlook June 2025

De-escalation of trade war brings relief

■ April
■ May

Asset allocation	–				+
Equities			May		
Real Estate				May	
Commodities			May		
Alternatives			May		
Bonds			May		

Geographic allocation equities					
North America			May		
Europe			May		
Japan			May		
China			May		
Emerging markets (ex-China)			May		
Asia Pacific (ex-Japan)			May		

Sector allocation equities					
Energy		May			
Materials			May		
Industrials		May			
Consumer Discretionary			May		
Consumer Staples		May	April		
Health Care				May	
Financials				May	
Information Technology			April	May	
Communication Services				May	
Utilities		May			

Fixed income allocation					
Government Bonds			May		
Investment Grade Credits				May	
High Yield Corporate Bonds		May			
Emerging Markets Debt			May		

We are increasing our position in the IT sector to overweight

The trade war has dominated financial markets for several months. Due to the postponement of U.S. import tariffs and the (temporary) significant reduction of tariffs for China, equity markets have strongly rebounded from the correction that occurred after April 2. Nevertheless, the average tariff remains significantly higher than before Trump became president, and there is still considerable uncertainty about how the situation will evolve. So far, the economy and corporate earnings have not been severely affected by the trade war, but this is certainly something to monitor closely. The likelihood of a U.S. recession has clearly decreased, which is favourable for financial markets.
The neutral equity weighting in our tactical asset allocation has risen to a slight overweight due to the market recovery, and we are comfortable with that. Within equities, we maintain a neutral regional allocation but are increasing the weighting of the IT sector to overweight. The de-escalation of the trade war benefits the sector, while quarterly earnings were solid and confirmed that the AI trend remains very much alive. In contrast, we are reducing the weighting of the consumer staples sector, which is relatively more affected by higher import tariffs. Within bonds, we are making no changes this month and continue to prefer corporate bonds over government bonds.

Highlights:

- The de-escalation of the trade war has brought relief to financial markets, although the average import tariff remains significantly higher than at the start of the year.
- The likelihood of a U.S. recession has clearly decreased due to the de-escalation. This is positive for corporate earnings and led to a strong market rebound.
- Import tariffs and declining confidence due to President Trump's erratic policies still have a negative impact on the economy.
- Although several companies warned about the consequences of the trade war, their quarterly results were generally better than expected.
- Because the euro has risen by over 9% against the dollar this year, the recovery of U.S. stocks is much more modest when measured in euros.
- We maintain a neutral equity position in our investment strategies, which has risen to a slight overweight due to the market rebound.
- Within equities, we have become more positive on the IT sector and more negative on the consumer staples sector.
- Within bonds, we continue to prefer (investment-grade) corporate bonds over government bonds.

De-escalation of trade war brings relief

A turbulent year for investors

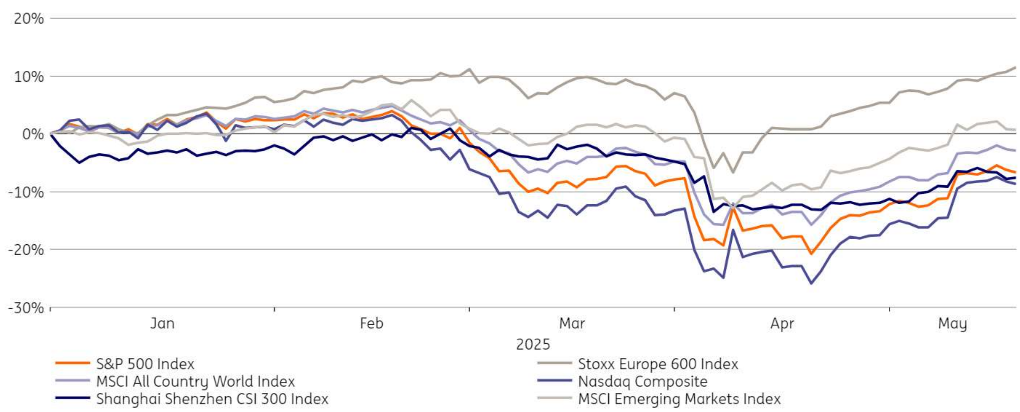
It has been a turbulent year for investors so far. Since President Trump's inauguration in January, uncertainty has increased, mainly due to his threats to impose significant import tariffs on trade partners. On April 2, he followed through with tariffs that were much higher than expected, causing major turmoil in financial markets. A week later, Trump reversed course and postponed the tariffs by 90 days, triggering a strong market rebound. And after the U.S. announced a 90-day pause in the trade war with China last Monday, stock markets recorded another significant rise.

Market volatility has decreased sharply

Markets strongly recovered from turbulent period

The U.S. S&P 500 index, which was down 15% for the year at its low point on April 8 (the day before Trump announced the postponement), is now showing a small gain and is only a few percentage points away from its all-time high. The S&P 500 rose for nine consecutive days, something that has only happened twice before in history. Technology stocks drove the recovery on Wall Street. The VIX, the S&P 500 volatility index also known as Wall Street's 'fear gauge', has dropped back below 20 points since last week, after spiking above 50 in the days following April 2. Investor fear has also dissipated: CNN's 'Fear & Greed' index has surged from an extremely low 3 points on April 8 to 69 points—indicating 'greed'. As if nothing had happened in recent weeks...

Equity markets have recovered from the 'Liberation Day' correction



Source: LSEG Datastream, ING Investment Office (performances from 01/01/2025 to 20/05/2025, total returns in euro)

European equities are performing well this year

Weak dollar dampens recovery for European investors

Although stock prices have rebounded strongly, globally diversified European investors are only partially seeing this reflected in their returns. This is due to the weaker dollar: the euro has appreciated by over 9% against the U.S. currency so far this year. As a result, returns on U.S. equities are significantly lower when measured in euros. This also affects the global index (MSCI All Country World Index), which consists of about 65% U.S. stocks. That index is up nearly 5% in dollars this year, but down almost 4% in euros. Fortunately, European equities provide some balance: the Stoxx Europe 600 Index is up over 9% this year, and the German DAX Index has gained as much as 20%. In Hong Kong, the Hang Seng Index, which includes many large Chinese companies, is up more than 7% (in euros).

Safe havens are being abandoned

U.S. bond yields rise; investors demand higher risk premium

With renewed optimism about a positive outcome to the trade war, investors have shifted to a 'risk-on' mode. This means they are moving away from safe havens and swapping government bonds for equities, pushing bond yields higher. The U.S. 10-year Treasury yield rose above 4.5% last week, and the 30-year yield nearly reached 5%. But this is not solely due to the reduced risk of a U.S. recession; investors have been demanding higher compensation for holding U.S. government bonds, especially those with longer maturities (10 years and beyond). This was underscored last week by Moody's downgrade of the U.S. credit rating, citing the failure of successive governments to reverse the trend of rising budget deficits and financing costs. Trump is unlikely to succeed either; his proposed tax cuts threaten to drastically increase the U.S. budget deficit. The downgrade from AAA status therefore comes as no surprise. Credit rating agency Standard & Poor's already preceded Moody's 14 years ago.

U.S.-China deal is a game changer

Trade between U.S and China can recover

The deal between the U.S. and China, even if only a temporary 'truce,' is a significant step in reducing trade tensions. It signals a willingness from both sides to continue trading and suggests the U.S. may soon reach agreements with other major trade partners. The reduction in tariffs on Chinese goods from 145% to 30% was much larger than expected. The Chinese tariff on U.S. goods was even lowered to 10%. This could allow trade between the two countries to largely recover. The short time span between the imposition and reduction of tariffs should make the impact on supply chains manageable. Moreover, U.S. companies stockpiled heavily in anticipation of the tariffs, as evidenced by the sharp rise in U.S. imports in the first quarter. The risk of a U.S. recession has clearly diminished.

Average tariff still much higher than before Trump took office

U.S. tariff is still 13% on average

That said, it's not quite business as usual yet. Tariffs remain at their highest levels since World War II. According to ING economists, the average tariff the U.S. now imposes on all imports is 13%. That's a significant drop from the 24% before the Chinese tariff reduction, but still much higher than the 8% on April 2 and the 2.5% before Trump's inauguration. This represents a substantial tax increase for the U.S. economy. Furthermore, the 13% may represent a floor, as the base tariff of 10% on all countries except China remains in place. It's also unclear what will happen when the 90-day postponement periods expire: July 8 for mutual tariffs and August 12 for China. It's possible that some countries will again face the original, higher reciprocal tariffs. All in all, uncertainty remains high, which undermines consumer and business confidence.

Will the American consumer hit the brakes?

Lower consumer confidence may affect spending

Consumer sentiment in the U.S. has declined sharply since the beginning of the year. The University of Michigan's monthly consumer sentiment index dropped from 74 points in December to 50.8 in May. Only in June 2022, when U.S. inflation peaked, was a lower level (50.0) recorded. There is a risk that this decline in confidence will be reflected in the hard data, such as spending. After retail sales rose 1.7% month-on-month in March—driven by consumers rushing to make purchases before tariffs took effect—they increased by only 0.1% in April. While that's better than the 0% economists had expected, it's still something to watch closely.

U.S. labour market remains robust; no signs of rising inflation

U.S. purchasing managers are becoming more cautious

U.S. companies see no reason yet to slow down hiring. In April, 177,000 new jobs were added, exceeding the expected 133,000. Unemployment remained stable at 4.2%. Purchasing managers, however, appear to have become more cautious. The Purchasing Managers' Index (PMI) fell from 53.5 to 50.6 in April. The manufacturing sector index remained stable at 50.2, while the services sector index dropped from 54.4 to 50.8. A figure above 50 indicates growth in activity.

There are still no signs of rising inflation due to the tariffs. In April, U.S. consumer prices rose by 0.2% month-on-month, but the annual rate slowed from 2.4% to 2.3%. That was 0.1% lower than expected and the smallest increase since February 2021. Producer prices even fell by 0.5% compared to March. On an annual basis, there was a sharp slowdown from 3.4% to 2.4%.

Eurozone growth in Q1 is likely unsustainable

Eurozone economy grows thanks to U.S. imports

The eurozone economy grew by 0.3% in the first quarter compared to the fourth quarter. This growth was largely driven by industrial production and exports, particularly because U.S. companies rushed to make purchases before the import tariffs took effect. Nevertheless, Europe is also expected to feel the effects of the trade war. The current 10% U.S. import tariff is projected to negatively impact eurozone economic growth by 0.1% to 0.3% this year. In April, purchasing managers already showed more caution. The eurozone PMI fell from 50.9 to 50.4. The services sector index dropped from 51 to 50.1, while the manufacturing index surprisingly rose from 48.6 to 49.0. However, we believe the notable rebound in manufacturing in Q1 is not structural, given the tariffs and the economic uncertainty they bring.

Chinese exports grow unexpectedly strong

China seems to export indirectly to the U.S.

Meanwhile, China appears to have successfully redirected part of its exports away from the U.S. or routed them through other countries. Despite a 21% year-on-year drop in exports to the U.S. in April, China's total exports rose by 8.1%, well above the expected 2%. Exports to Southeast Asia increased by 20.8%, suggesting that China is indirectly exporting more to the U.S. via these countries. Other economic indicators in April were mostly disappointing. Housing prices declined month-on-month, and growth in retail sales, industrial production, and fixed asset investment slowed.

We still see upside potential in equities

We hold on to the slight overweighting of equities

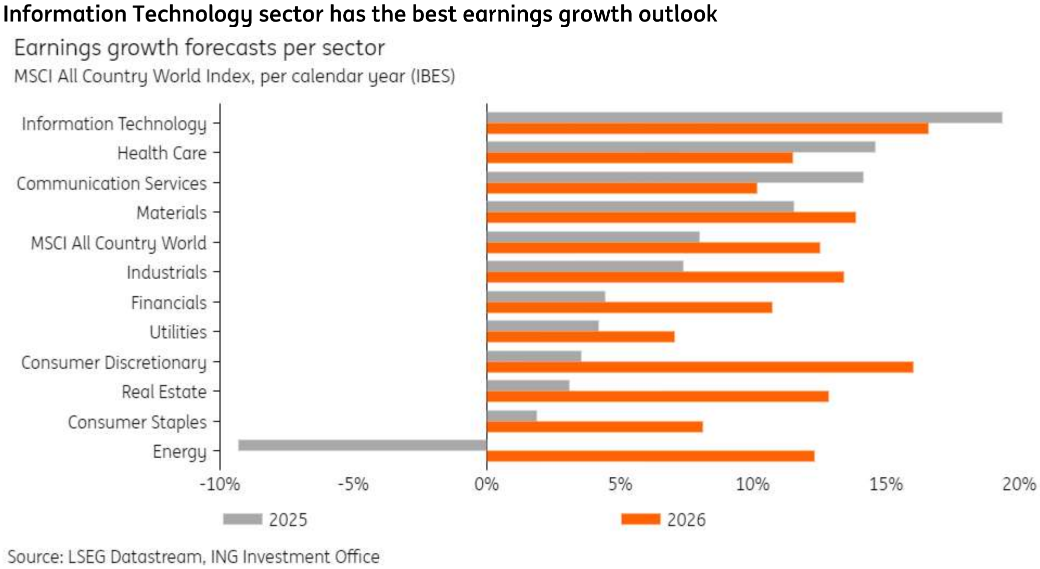
Despite ongoing uncertainty, we see upside potential for risk assets like equities. Although markets have already staged a strong recovery, investors may anticipate more trade agreements and a reduced likelihood of a U.S. recession. They are also supported by a surprisingly strong earnings season, especially in the U.S. Earnings growth for U.S. companies in Q1 was over 10%, compared to a pre-season expectation of 6.6%. Due to the sharp price increases since April 8—the day we added equities to restore the neutral equity position in our investment strategies—our equity position has become (slightly) overweight. We are comfortable with this position and have chosen not to rebalance back to a neutral weighting.

Growing optimism about technology stocks

The AI trend is still alive and well

Within equities, we are maintaining our neutral regional allocation, but we are becoming more positive about the information technology sector. The apparent willingness of the U.S. and China to reach a trade truce is a positive development for the sector. This benefits companies that manufacture many of their products in China, such as Apple, as well as chipmakers that both serve Chinese customers and import components from China. Semiconductor companies also benefited from the announced easing of restrictions on the export of advanced chips. Companies like Nvidia and AMD already capitalized on this during Trump's trade mission to the Arab world, securing deals with a Saudi firm planning to build a large data centre in the desert. Additionally, quarterly earnings were solid. Cloud service providers continue to invest heavily, as demand still outpaces supply. The AI trend is clearly still alive and well. Combined with valuations (price-to-earnings ratios) that had dropped significantly since March, investors rushed back into tech stocks. Although valuations have since risen again due to price increases and expectations that earnings growth forecasts will largely hold, we are not deterred from expanding our IT position to overweight.

Information Technology sector has the best earnings growth outlook



Consumer Staples downgraded to underweight

Consumer staples companies are affected by tariffs

In contrast to the IT sector upgrade, we are downgrading the consumer staples sector to underweight. Thanks to its defensive nature, the sector performed well during recent market turmoil, but its relatively low growth and high valuation make it less attractive. Moreover, several companies have lowered their earnings forecasts due to higher costs from import tariffs. For example, Walmart, the world's largest retailer, did not provide earnings guidance for the second quarter, as it does not want to pass all costs on to customers.

Preference for investment-grade corporate bonds

Corporate bond spreads have largely recovered

We are making no changes to our fixed income allocation this month and continue to favour spreads over duration—that is, corporate bonds over government bonds. Corporate bonds were not immune to the turmoil following April 2, which led to rising risk premiums (spreads), but these have now largely returned to previous levels. Within corporate bonds, we prefer investment-grade eurozone corporate bonds over global high-yield bonds. We maintain a neutral view on emerging market debt.

ING Investment Office Risk Barometer

Signal	=	
Fundamental	=	The U.S. economy is cooling down, while the Eurozone economy is cautiously recovering
Liquidity / interest rates	=	Financial conditions have tightened, central banks are in 'wait and see' mode
Valuation	=	Equity valuations have declined to somewhat above the long-term average
Sentiment[1]	-	Sentiment indicators have increased to above-neutral levels after the market rebound

[1] Contrarian indicator: very negative sentiment can be assessed as positive, and vice versa.

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