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AZIMUT GLOBAL VIEW

09.06.25

Main Events

US CPI – 11.06
Consensus expects a slight uptick in inflation on a year-over-year basis, with headline inflation projected to rise to 2.5% YoY and core inflation to 2.9%

US RETAIL SALES – 17.06
Investors will gauge whether tariffs start to affect consumers' spending patterns

FED MEETING – 18.06
As FOMC is expected keep rates on hold, investors will focus on potential hints for the path ahead

SNB MEETING – 19.06
With deflationary pressures back in play and the Swiss Franc showing remarkable strength, the SNB may be the first central bank to re-enter negative rates

Azimut Global Network

- Milan
- Abu Dhabi
- Austin
- Cairo
- Dubai
- Dublin
- Estoril
- Geneva
- Hong Kong
- Istanbul
- Lugano
- Luxembourg
- Mexico City
- Miami
- Monaco
- New York
- Rabat
- Santiago
- São Paulo
- Shanghai
- Singapore
- St Louis
- Sydney
- Taipei

SECTION 899: TAXATION EXTENDS TO CAPITAL FLOWS

- **The U.S. Court of Appeals reinstated Trump-era tariffs after the U.S. Court of International Trade had ordered an immediate block. The dispute is now expected to move to the Supreme Court. Meanwhile, Section 899 of the recently enacted "One Big Beautiful" tax bill is emerging as a focal point for market participants due to its retaliatory tax provisions**

- **The European Central Bank delivered an expected 25 basis point rate cut, with President Lagarde stating that the ECB is nearing the end of its rate-cutting cycle**

- **The latest U.S. releases continue to highlight the divergence between bleak sentiment indicators and overall resilient hard data**

On May 28th, the U.S. Court of International Trade issued an injunction blocking most tariffs imposed under the International Emergency Economic Powers Act (IEEPA), excluding sector-specific levies on steel and aluminum. Shortly after, the Court of Appeals overturned the injunction, keeping the tariffs in force, pending a review by the Supreme Court.

Should the latter ultimately strike down Trump's tariffs, the effective tariff rate increase would be reduced from approximately 13-15% to around 6.5-7.5%, roughly halving the current level.

However, even if the Supreme Court were to rule against the tariffs, the administration could still impose both across-the-board and country-specific tariffs under other legal authorities, namely:

- Section 122, Trade Act of 1974: allows up to 15% tariffs for 150 days to correct balance-of-payments deficits;
- Section 301, Trade Act of 1974: a more comprehensive but lengthier process to address unfair trade practices.

This framing suggests that while their scope and breadth may narrow, tariffs remain a viable tool for the administration's foreign policy goals.

(continued)

In addition to tariffs, a relatively obscure provision included within the recent tax legislation is beginning to draw attention: Section 899 of the "*One Big Beautiful Bill Act*"(OBBBA), formally titled "*Enforcement of Remedies against Unfair Foreign Taxes*," establishes retaliatory taxation mechanisms against countries imposing "discriminatory" taxes on U.S. entities, broadly encompassing digital services taxes, diverted profits taxes, and elements of the OECD's global minimum tax framework". The implementation would be done gradually, with affected companies seeing their tax rate increase by 5% per year for four years, resulting in a 20% tax increase on top of the 21% corporate tax rate.

The impact of Section 899 in terms of deficit reduction would be modest: approximately $120 billion over ten years, an amount equivalent to a 0.4% increase in the effective U.S. tariff rate or a 3% increase on China-specific tariffs.

However, the broader implications for U.S. financial assets could be more significant for at least two reasons:

- Diminished perspective returns: higher tax burdens could disincentivize investment in the U.S., potentially leading to capital outflows, as the provision effectively taxes foreign entities for deploying long-term capital in U.S. markets, reducing the ex-ante real return on U.S. assets and potentially diminishing their attractiveness to international investors;
- Increased uncertainty: Section 899 serves as another avenue of policy uncertainty, which may increase the cost of holding U.S. assets for international investors not only via reduced cash flows but also embedding a higher Risk Premium for U.S. financial assets.

Shifting to Europe, the European Central Bank (ECB) Governing Council delivered a widely anticipated 25 basis point rate cut at its latest meeting, while maintaining a data-dependent, meeting-by-meeting approach.

Growth projections for 2025 were revised down by 0.3%, reflecting escalating trade tensions, while 2026 estimates saw a modest 0.2% upgrade, given the prospect of increased fiscal spending in Germany. The projections for core and headline inflation were both downgraded for 2026, reflecting a stronger Euro and lower energy prices, but left unchanged for 2027.

Growth and inflation projections for the Euro Area

(annual percentage changes, revisions in percentage points)

	June 2025				Revisions vs March 2025			
	2024	2025	2026	2027	2024	2025	2026	2027
June 2025 baseline								
Real GDP	0.8	0.9	1.1	1.3	0.0	0.0	-0.1	0.0
HICP	2.4	2.0	1.6	2.0	0.0	-0.3	-0.3	0.0
HICP excluding energy and food	2.8	2.4	1.9	1.9	0.0	0.2	-0.1	0.0
Alternative scenario – mild								
Real GDP	0.8	1.2	1.5	1.4	0.0	0.3	0.3	0.1
HICP	2.4	2.0	1.7	2.1	0.0	-0.3	-0.2	0.1
Alternative scenario – severe								
Real GDP	0.8	0.5	0.7	1.1	0.0	-0.4	-0.5	-0.2
HICP	2.4	2.0	1.5	1.8	0.0	-0.3	-0.4	-0.2

Source: ECB

In its baseline outlook, the ECB now incorporates a 10% "reciprocal" U.S. tariff on EU goods, with staff modeling alternative scenarios ranging from no tariffs to more aggressive measures, including a 20% tariff on EU imports and a 120% tariff on Chinese goods. The latter scenario implies a 1% downside to real GDP and headline inflation of 1.8% in 2027—below the ECB's 2% target.

While the ECB signals that its rate-cutting cycle is nearing completion, rising tariff-related risks have led global central banks to accelerate easing efforts. May saw 15 rate cuts globally—the most since December 2024—with emerging market central banks leading the way.

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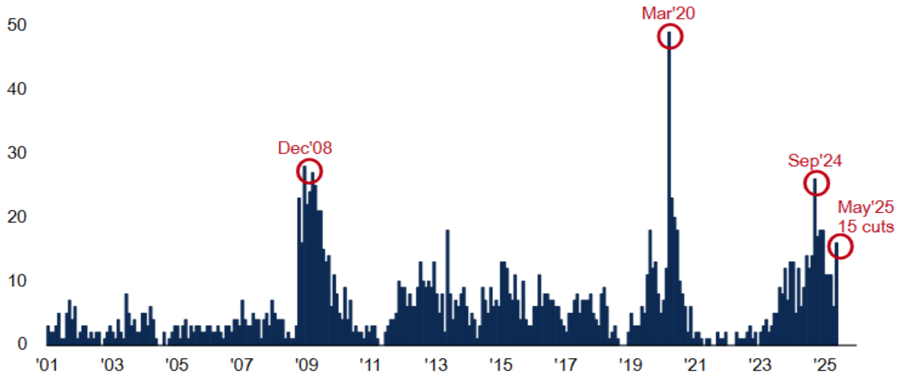
Re-acceleration of rate cuts from Central Banks in May 2025



The chart shows the number of global policy rate cuts per month.
Source: BoFA Global Investment Strategy, Bloomberg,

During the press conference, President Lagarde signaled that, absent significant data deterioration, ECB policy rates have reached an appropriate level. This marks a notable shift toward a more contained easing pace, supported by emphasis on medium-term fiscal support and labor market resilience.

At the time of writing, markets are pricing in a 25bp cut in December and a terminal rate of 1.5% to be reached around the middle of 2026..

Moving back to the U.S., ISM surveys continued to highlight negative spillovers from trade policy-related uncertainty.

In May, the ISM manufacturing index slipped to 48.5 (from 48.7), with the new orders component coming out at 47.6, production at 45.4 and employment at 46.8. The "new export orders" component fell to 40.1 — the weakest since May 2020 — and imports plunged to 39.9, a low not seen since May 2009.

The ISM services index dropped 1.7 points to 49.9. Business activity held at 50.0, new orders fell to 46.4, while employment rose to 50.7. Respondents cited tariffs' rising costs and supply-chain chaos.

On the contrary, the latest U.S. employment report showed a picture of sustained resilience, though signs of cooling persist. Nonfarm payrolls increased by 139K, exceeding expectations for a 126K gain; the prior month reading was revised down by 30K. The unemployment rate rose slightly to 4.244% from 4.187%, though the modest increase was largely due to a 595K drop in the labor force. Without this decline, the unemployment rate would have been 4.6%, as the household survey reported a 696K decrease in employment.

Payroll gains were strongest in leisure & hospitality and education & health, while employment fell in federal government, manufacturing, and temporary help services. Weekly jobless claims will be closely watched for signals about the near-term path of U.S. labor markets ahead of the June NFP report.

Looking ahead, tariffs will likely remain a focal point for investors, particularly with trade deal negotiations approaching the 90-day pause deadline set on April 7. Additionally, attention will center on the approval process of the "One Big Beautiful" tax bill in the U.S. Senate, which targets July 4th for final passage—an ambitious, but not unrealistic, timeline.

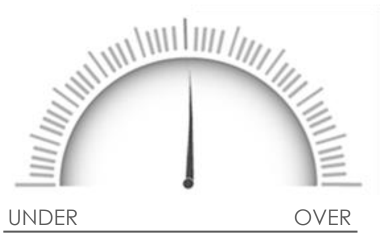
Asset Allocation View

	−	=	+
Equity			
Developed Markets		■	
Emerging Markets		■	
Fixed Income			
Developed Markets Sovereign		■	
Developed Markets Corporate			■
Emerging Markets			■
Commodities		■	
Currencies	*Commentary below*		

− UNDER = NEUTRAL + OVER

Equity

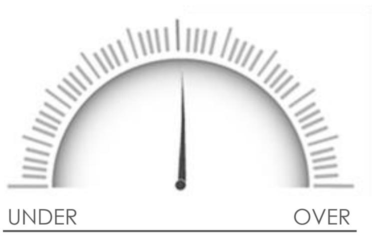
Developed Markets



We have maintained our **Neutral** recommendation on Developed Market Equities, owing to the persistence of opposing forces. Valuations remain elevated, long-term interest rates are on the rise, and tariff-related uncertainty is unlikely to abate. Meanwhile, the US administration's focus seems to have shifted to approving measures to promote growth, such as the “big beautiful bill,” which could stimulate the economy even if it further increases the deficit. We continue to favor equities from global markets—particularly Europe—over those in the United States.

US	=	**Europe**	+	**Japan**	=

Emerging Markets

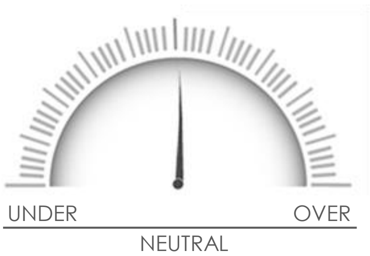


We have kept our **Neutral** recommendation on Emerging Market Equities. Trade tensions between China and the United States persist, with attempts to find common ground repeatedly thwarted by subsequent disputes. On the other hand, the reallocation of foreign investors away from the US, together with a weakening US dollar, could continue to provide a tailwind for emerging markets as a whole.

Asia ex-Japan	=	**EEMEA**	−	**LATAM**	=

Fixed Income

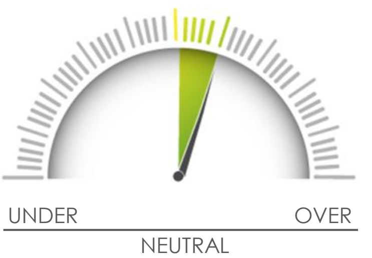
Developed Markets Sovereign



We kept our **Neutral** recommendation on Developed Markets Sovereign Bonds. The Committee unanimously believes that the short and medium ends of the yield curves are the safest. However, diverging views remain on the long and very long ends. A growing number now consider also these segments as attractive, given the recent rise in rates and the first signs of a possible cooling of the US labor market. However, a minority believes that the risk of further increases still remains, mainly due to concerns about a further widening of the deficit if Trump's big beautiful bill is approved.

EU Core	=	**EU Periphery**	=	**US Treasury**	=	**Japanese JGB**	=

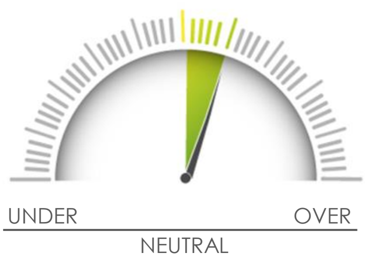
Developed Markets Corporate



We have maintained our **Slightly Overweight** recommendation on Developed Market Corporates. The easing of international trade tensions, along with still low likelihood of recession should allow for a further compression of credit spreads. In this environment, we continue to favor investment-grade bonds over high yield bonds.

IG Europe	+	**IG US**	+	**HY Europe**	−	**HY US**	−

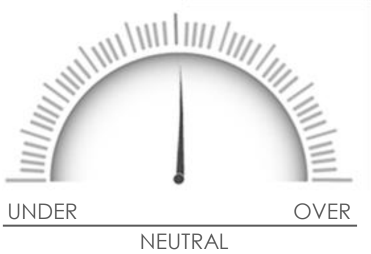
Emerging Markets



We have maintained our **Slightly Overweight** recommendation on Emerging Market Bonds. The rapid narrowing of spreads on developed market bonds makes emerging market bond spreads relatively more attractive than similarly rated bonds issued by developed market issuers. In addition, ongoing diversification away from the U.S. by international investors and the weakening US dollar could continue to divert flows towards emerging markets.

Local Currency	=	**Hard Currency IG**	=	**Hard Currency HY**	=

Commodities



We have maintained our **Neutral** recommendation on Commodities. Among commodities, we continue to favor precious metals. The correction from recent highs appears to be over, with silver, platinum, and palladium rising sharply. Underlying demand for precious metals remains solid, supported by the weaker Dollar and the growing fears of fiscal further slippages in the U.S.. Caution is still warranted on other commodities, pending greater clarity on the global economic outlook.

Precious	+	**Energy**	=	**Industrial**	=	**Agricultural**	=

Currencies

The Committee has further downgraded the U.S. Dollar to **Underperform**. The dollar could continue to weaken against other major world currencies due to the recent trend of diversification away from the United States and the repatriation of capital by non-US investors. Additionally, the push to pass Trump's big beautiful bill, with the associated deficit expansion, could weigh further on the greenback.

The Committee has upgraded its recommendation on the Euro to **Slightly Overweight**. The diversification away from the U..S is proving particularly beneficial for the eurozone, which is performing significantly better than the U.S.. This outperformance could warrant further capital inflows. Furthermore, the ECB may have just made its last rate cut. If confirmed, this easing cycle would end sooner than expected, providing further tailwinds for the euro.

We have maintained our **Neutral** stance on the **Chinese Renminbi**, awaiting more clarity on the outcome of the ongoing trade negotiations with the United States.

The outlook for other **emerging market currencies** has been confirmed as **Neutral with a bullish bias**. The reallocation of capital away from the US and the weakening of the US dollar could continue to favor emerging markets, despite the uncertainties still surrounding trade relationships.

Euro	+	**USD**	−	**CNY**	=	**Other EM**	+