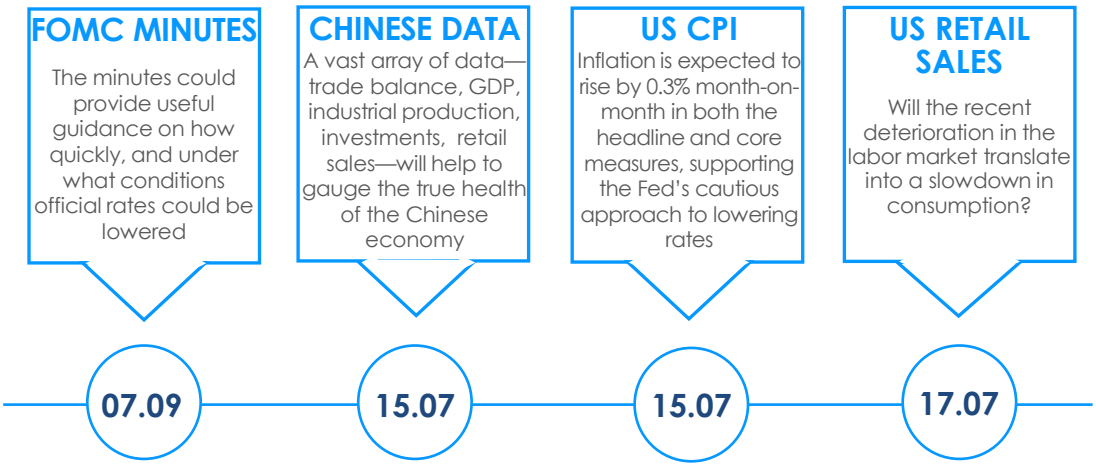
Main Events



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

A TSUNAMI OF DEBT AND TARIFFS

- **Trump's signature bill, the "One Big Beautiful Bill Act," has finally passed into law. The measure is expected to increase the primary deficit by $3.1 trillion over 10 years, and the total deficit including interest by $4.1 trillion.**
- **However, growth will receive a limited boost from the bill, as only a small portion of the additional deficit consists of new tax cuts. Most of it ($4 trillion) comes from the mere extension of the tax cuts already introduced by the TCJA back in 2017.**
- **At the same time, Trump is following through on his threat to impose higher tariffs on trading partners, at levels similar to those on Liberation Day.**

In the end, Trump is getting everything he wanted. For the time being, without adverse effects. The "One Big Beautiful Bill Act" (hereinafter "OBBBA") was signed into law on July 4. Almost simultaneously, Trump began sending letters with the new tariff rates to countries that had not yet reached trade agreements with the United States.

Although Trump clearly seeks to associate his signature measures with positive symbolism (he called April 2 "Liberation Day," while the OBBBA was signed on Independence Day), it remains to be seen how beneficial these measures will actually prove to be for the US.

Let's start with the OBBBA. Its positive effects on growth have been greatly exaggerated, while its negative impacts on the deficit have been completely dismissed.

According to the Congressional Budget Office, a non-partisan organization, the primary budget deficit is expected to increase by $3.4 trillion over the next ten years; including interest costs, it would add $4.1 trillion to deficits. The OBBBA also increases the debt ceiling by $5 trillion.

The main impact on the deficit comes from the extension of income tax provisions in the Tax Cuts and Jobs Act (TCJA) of 2017, which is estimated to cost about $4 trillion over the next decade. This will be partially offset by spending cuts of around $1.4 trillion, primarily from Medicaid.

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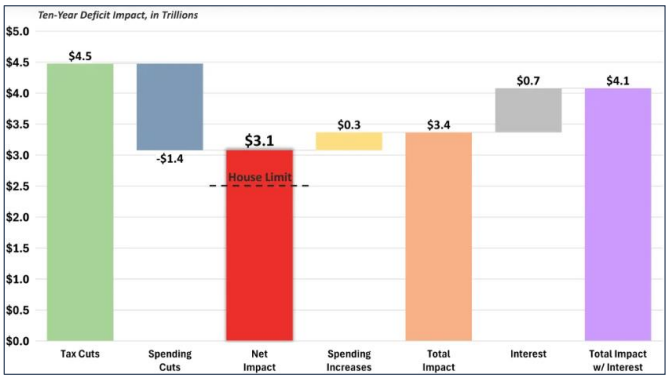
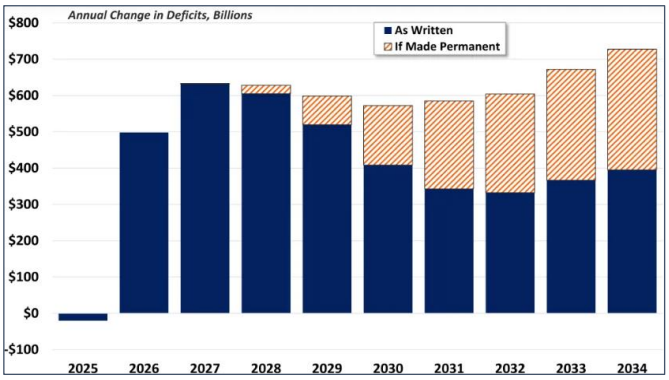


Source: CRFB.org, Congressional Budget Office



Source: CRFB.org, Congressional Budget Office

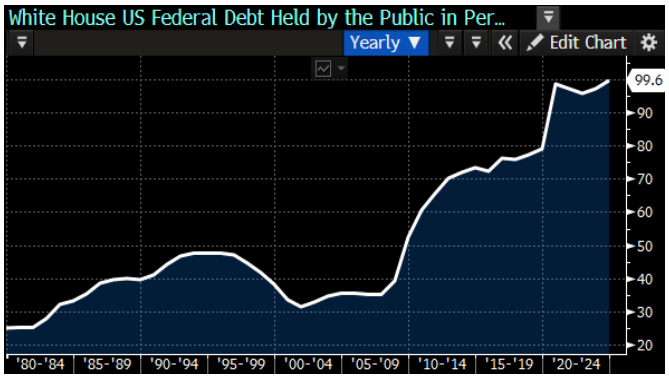
The real impact on public finance might actually be way bigger than this, if one considers that the bill front-loads tax cuts and postpones spending cuts, causing a fiscal cliff at the end of 2028: as the OBBBA is written, the additional deficit would fall below $400 billion per year after 2030. However, if in 2028 the temporary measures were made permanent—exactly as has been the case now with the extension of the TCJA provisions—the increase in the annual deficit would remain around $600 billion before rising to $700 billion in 2034.

Should that happen, the bill would add more than $5.3 trillion to the debt over a decade, $1.2 trillion more than the official figure. This is a $7 trillion U-turn (equivalent to 24% of nominal GDP) from the election promise to restore fiscal responsibility and the associated ambitious goal of reducing the budget deficit by approximately $2 trillion with the help of the DOGE.

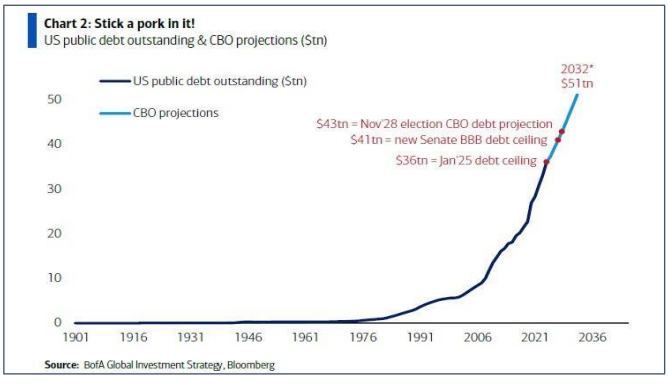
According to estimates by the Committee for a Responsible Federal Budget (www.crfb.org/blogs/senate-obbba-charts) based on data from the Congressional Budget Office, the debt-to-GDP ratio would reach 127% in 2034 if the temporary measures are not made permanent, or 130% if they are. This would represent an increase of almost 100% in the US debt-to-GDP ratio since before the Great Financial Crisis, just 17 years ago.

However, while there is a major impact on public finances, the same cannot be said for the impact on growth. As argued above, the extension of the TCJA ($4.0 trillion) accounts for most of the total tax cuts ($4.5 trillion) and more than 100% of the incremental deficit ($3.1 trillion). But the extension of the TCJA does not increase the amount of money available to consumers. It is simply the cost of preventing US citizens from having to pay much higher taxes. Therefore, no impact on the economy is expected from the extension of the TCJA.

In addition to the TCJA, other tax relief has been approved, but most of these are offset by other spending cuts. As can be seen from the chart above left, the actual spending increase resulting from the OBBBA is only $0.3 trillion over ten years, or about 0.1% of GDP every year. Consequently, presenting the bill as a measure that would jumpstart the economy is misleading.



Source: Bloomberg



Source: Bank of America

(continued)

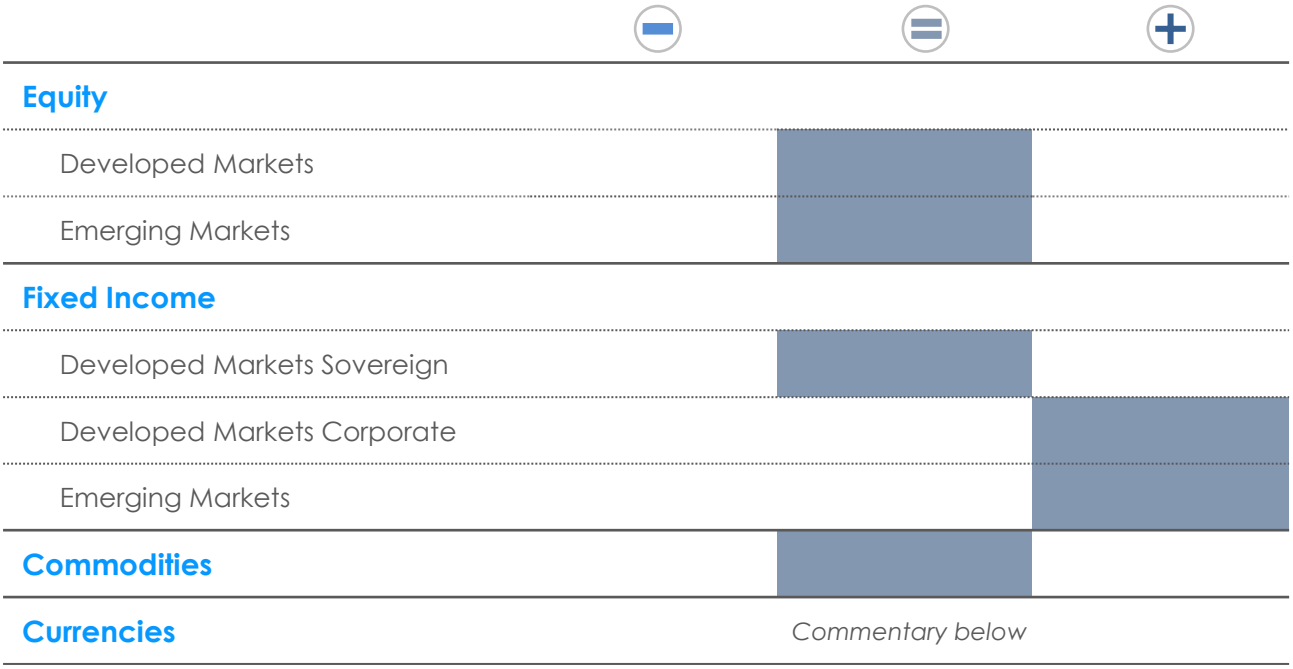
As for tariffs, Trump began to follow through on his threat to send individual letters to each country, indicating the tariff rate that would be applied to their imports. The first to be hit were Japan, South Korea, Malaysia, and Kazakhstan (all with a 25% tariff rate), South Africa (30%), Indonesia (32%), Cambodia and Thailand (36%), Laos and Myanmar (40%). These rates are not significantly different from those announced on April 2 and will take effect on August 1. The White House anticipated that dozens more letters of this type will be sent in the coming days, before the July 9 deadline.

However, there are also additional threats. If the country subject to tariffs decides to retaliate by imposing counter-tariffs, the rates applied by the United States to imports from that country will automatically be raised by the same amount. On a separate note, on Sunday, Trump also threatened to slap an additional 10% levy on "any country aligning themselves with the Anti-American policies of BRICS."

Not only that. It has also been clarified that the tariffs that the United States intends to apply to specific sectors once the ongoing investigations have been completed—such as semiconductors, electronics, and pharmaceutical products—will be imposed on top of the generic tariff rates indicated in the letters.

What has been surprising so far is that, despite the scenario unfolding being similar, if not worse, than the one presented on April 2, financial markets seem to remain completely unaffected, particularly stock markets, as if there were no significant repercussions from the tariffs. This is a completely different reaction from the one observed in April. Assuming that tariffs of this magnitude will simply vanish without impacting inflation or growth is perhaps a symptom of over-complacency. This is even more true considering that stock markets have returned to levels seen before the tariffs were introduced, or even exceeded them.

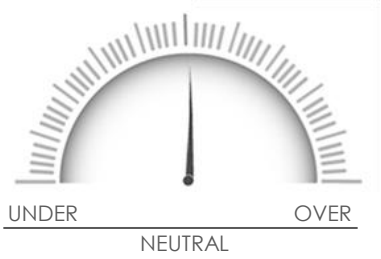
Asset Allocation View



UNDER NEUTRAL OVER

Equity

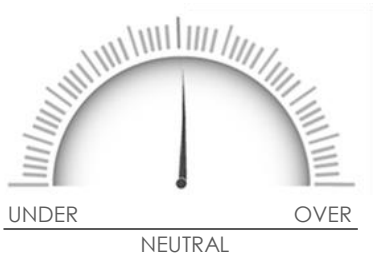
Developed Markets



We have maintained our **Neutral** recommendation on Developed Market Equities. The recommendation reflects the need to balance encouraging developments with emerging risks. The former include robust and steady inflows into the stock markets, a reduction in volatility (VIX), a surge in public spending in the US following the approval of Trump's Big Beautiful Bill, increased fiscal spending in Europe, and expectations of another strong reporting season. The latter include more evident signs of a deterioration also in the so-called "hard data," particularly in the labor market, renewed tensions over tariffs with the first unilateral letters sent by Trump, and valuations that remain challenging.

US	Europe	Japan

Emerging Markets

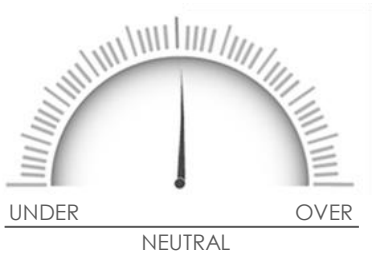


We have kept our **Neutral** recommendation on Emerging Market Equities. Emerging countries, like developed countries, have also shown remarkable resilience notwithstanding the geopolitical tensions and the risks related to the unilateral tariffs that Trump might impose to countries that have not reached an agreement with the U.S.. Additionally, unlike in developed markets, valuations in emerging markets remain more attractive, and the weaker U.S. dollar acts as a supportive tailwind for these economies.

Asia ex-Japan	EEMEA	LATAM

Fixed Income

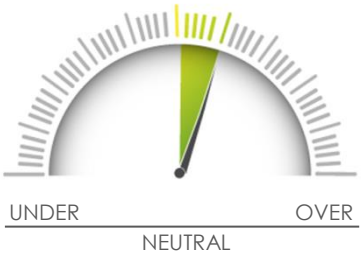
Developed Markets Sovereign



We have maintained our **Neutral** recommendation on Developed Markets Sovereign Bonds. In light of recent macroeconomic data pointing to a slowdown in the U.S.—particularly in the labor market—a growing and now prevailing number of committee members anticipate a decline in both official and market rates in the coming months. As a result, the committee has become more constructive not only on the short- to medium-term segments of the U.S. yield curve, but also on the medium to long end. However, some committee members remain cautious on the very long end (30-year maturities), citing concerns over the worsening U.S. fiscal outlook following the approval of Trump's Big Beautiful Bill.

EU Core	EU Periphery	US Treasury	Japanese JGB

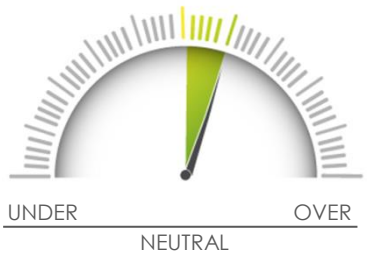
Developed Markets Corporate



We have maintained our **Slightly Overweight** recommendation on Developed Market Corporates. Demand for credit remains exceptionally strong, and the possibility of a decline in U.S. rates—as previously argued—should continue to support this asset class. In this environment, we continue to favor investment-grade bonds over high yield bonds, and EU bonds over US bonds.

IG Europe	IG US	HY Europe	HY US

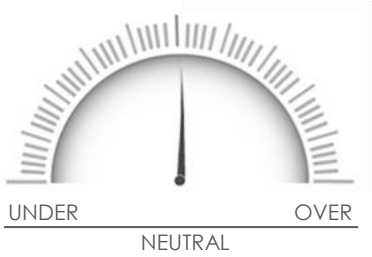
Emerging Markets



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. Additionally, the continued diversification away from U.S. assets by international investors—coupled with a weakening U.S. dollar—could further support capital flows into emerging markets.

Local Currency	Hard Currency IG	Hard Currency HY

Commodities



We have maintained our **Neutral** recommendation on Commodities. Among commodities, precious metals could still be vulnerable to a retracement after sharp gains in recent months, particularly if the U.S. dollar manages to stage at least a temporary rebound following its worst first half in 50 years. However, in the long term, demand for precious metals should remain solid—supported by a potentially weaker dollar and ongoing concerns about fiscal slippage in public finances globally. Caution is still warranted for cyclical commodities, particularly energy, following yet another production increase by OPEC.

Precious	Energy	Industrial	Agricultural

Currencies

The Committee has upgraded its recommendation for the U.S. Dollar back to **Neutral**. After the worst first half of the year in 50 years, the US dollar is approaching some key technical levels—such has 1.22, the average since the inception of the euro—from which at least a temporary rebound might be in the cards. However, Trump's administration goal of weakening the greenback could cap the potential rebound.

The Committee has accordingly lowered its recommendation on the Euro to **Neutral** as well. The reasons are the same, in reverse, as those given for the US dollar. In addition, the ECB might opt for further monetary easing if the strength of the euro threatens the acceleration in growth expected from the planned increase in fiscal spending.

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 massive YTD outperformance of emerging debt strategies is gaining momentum among investors, despite the uncertainties still surrounding trade relationships.

Euro	USD	CNY	Other EM
=	=	=	+