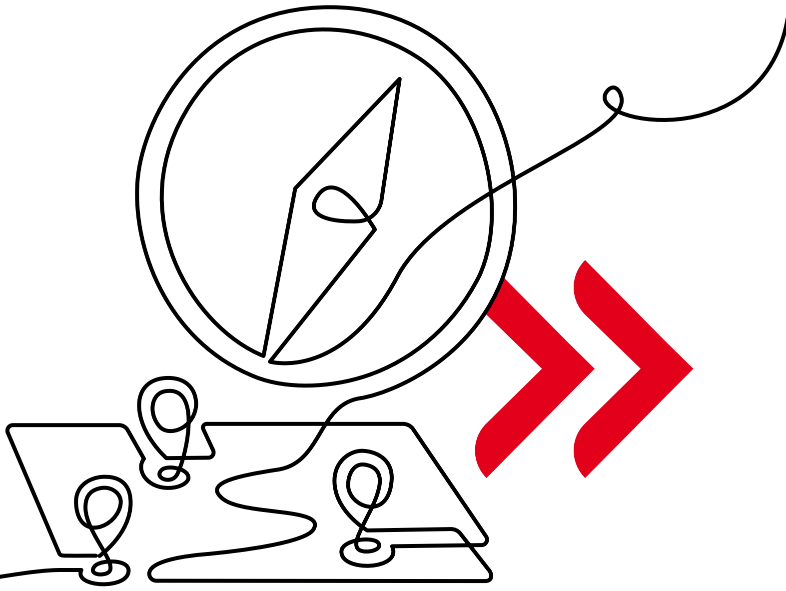
The Investment Institute
By UniCredit

The Compass Checkpoint

22 May 2025



The negotiations limbo

The global economy is in limbo. The Trump administration's reciprocal tariffs announced on 2 April have been put on hold until 8 July. In the meantime, the US is negotiating parallel trade agreements with all of its main trading partners. Immediately after freezing tariffs on 10 April, Peter Navarro, Trump's top trade advisor, stated that the administration had set a trade goal to "run 90 deals in 90 days".

Washington recently announced the first of such deals, with the UK. Two lessons can be learned from this. First, the Trump administration is willing to bring down tariffs, but just up to a point. Therefore, there will not be a return to the status quo, and a 10% tariff on the majority of goods entering the US will likely become a floor – up from the previous average tariff on US imports of about 2.5%.

Second, complex trade agreements cannot be negotiated in a few weeks. The trade deal with the UK is not yet finalised. There are still details that need to be ironed out. Agreements with large economies, like China or the EU, will take even longer.

This is not surprising. Trade negotiations with just a single country can take months or even years given the technical intricacies involved. And the Trump administration is not just focused on cutting foreign tariffs but on removing all possible trade barriers, such as foreign laws, regulations and policies that it sees as impeding competition. Therefore, much of the uncertainty that companies, consumers and investors are experiencing will not dissipate after 8 July (and in China's case beyond 10 August). The only certainty is that the world is moving towards a regime of persistently higher tariffs.

Central banks are trying to navigate these uncharted waters, with rising risks of monetary-policy divergence between the Fed and the rest. The ECB cut interest rates at its latest meeting, and is set to cut two more times in 2025. Major central banks are in a similar easing mode. The Fed, instead, despite pressure from the Trump administration, did not cut interest rates at its last meeting and said it is buying time to assess possible stagflationary risks caused by Trump's protectionist policies. This negotiations limbo is likely to further erode confidence in the dollar and to keep market volatility elevated.

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View from the CIOs

Alessandro Caviglia (Italy), **Philip Gisdakis** (Germany), **Oliver Prinz** (Austria)

A lot has happened since the Trump administration's announcement of reciprocal tariffs in early April. Risky assets, particularly equities, have been sold off globally, with US markets hit especially hard. At the same time, UST yields surged and the dollar weakened – suggesting potential erosion in the traditional safe-haven status of both US government bonds and the USD. Despite this backdrop, the relative outperformance of European equities compared to their US peers, observed in the early weeks of the year, has remained intact. European economic conditions have held up relatively well given the turbulence triggered by US trade policy. By contrast, expectations for US GDP growth have been revised downward significantly.

Given continued uncertainty, strong directional calls in equity allocation appear unwarranted – despite the recent rebound from April lows. Our focus remains on robust company, industry and theme selection. European equity markets, with their higher share of value and defensive sectors, offer investors a degree of portfolio stability. Coupled with the relative resilience of the European economy, we have adjusted our positioning on European equities (from underweight) and Pacific equities (from overweight) to neutral.

While the European economy will also feel the impact of US trade tensions and higher tariffs, investment initiatives announced by the new German government should help underpin regional demand. At the same time, the weakening of the USD, exacerbated by Trump's apparent willingness to support exports through a softer greenback, raises broader concerns related the dollar's long-term safe-haven role. These developments could be seen as early signs of a secular de-dollarisation trend.

As a result, we advocate a more cautious stance toward the USD. In fixed income, this means reassessing US dollar exposure and UST duration risk, with volatility expected to remain elevated. Periods of temporary USD strength can be used to reduce exposure. We continue to favour our "Quality Carry" strategy in fixed income: to overweight EUR-denominated corporate investment-grade and emerging-market debt and to underweight global high-yield bonds.

ASSET ALLOCATION

OUR INVESTMENT VIEW ON ASSET CLASSES

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
Global equities		●	
US equities		●	
Europe equities		●	
Pacific equities (developed markets[1])		●	
Emerging-market equities		●	
Global bonds			●
Government bonds (EMU)		●	
Government bonds (N-EMU)		●	
Corporate bonds (EUR-denominated investment-grade)			●
Corporate bonds (high-yield)	●		
Emerging-market bonds (hard currency)			●
Emerging-market bonds (local currency)			●
Money markets	●		
Alternatives		●	
Commodities		●	
Oil		●	
Gold		●	

1. Developed markets: Australia, Japan, Hong Kong, New Zealand, Singapore

Macro Stories

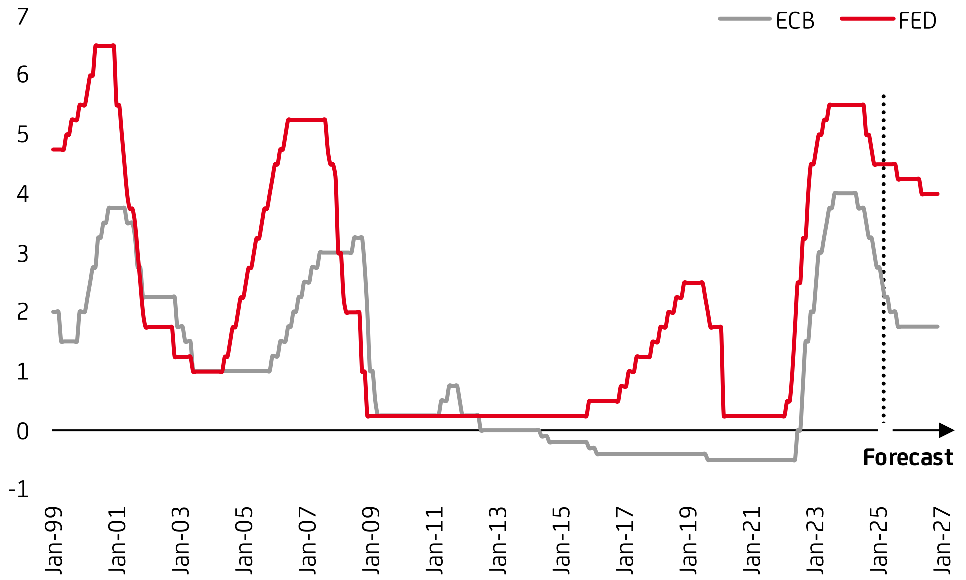
Authors: Andreas Rees, Marco Valli, Daniel Vernazza

ECB cuts to continue, Fed faces tricky balancing act

The ECB seems to be facing a less challenging job than the Fed. The rhetoric in Frankfurt has become more dovish as the trade war increases downside risks to the eurozone growth outlook while adding to disinflationary pressure, at least in the short-to-medium term. Weak economic growth, the appreciation of the euro, lower energy prices and the risk of meaningful diversion of Chinese trade flows away from the US will likely strengthen the ECB's confidence about a timely and sustainable return of inflation to its 2% objective. This suggests that rate cuts will likely continue in June, when the deposit rate will probably be reduced further to 2%, bringing cumulative rate cuts for this cycle to 200bp. We confirm our view that the deposit rate will bottom out at 1.75% by September, reaching the lower bound of the ECB's estimated neutral range.

CHART 1.1: FED TO REMAIN RESTRICTIVE

POLICY RATE, IN %



Source: Bloomberg, The Investment Institute by UniCredit

The Fed left its target range for the federal funds rate at 4.25-4.50% on 7 May. Fed Chair Powell repeated that monetary policy is well positioned and that it is appropriate for the central bank to wait for greater clarity (on government policy and economic data) before deciding whether to adjust rates. The Fed is in a very difficult position as tariffs are likely to raise inflation and weaken economic growth, putting its dual mandate goals of 2% inflation and maximum employment in tension. In such a situation, the Fed would decide policy based on how far the economy is from each goal. In our view, the bar for adjusting policy rates before September is very high, as the 90-day pause on "reciprocal" tariffs extends to 8 July. We are sticking with our view that, in our base case of no recession, the Fed will likely focus on its price-stability goal. We expect just one rate cut this year, in 4Q25, and one cut in mid-2026.

Trade diversion of Chinese goods from the US to the EU

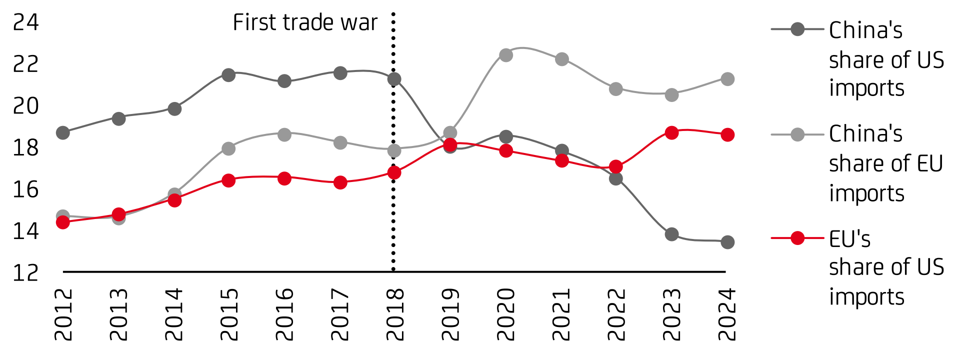
After the latest cut in US tariffs on Chinese goods to 30% from 145%, they still remain substantially higher than on imports from the rest of the world, which are currently 10%. While uncertainties about the outcome of further trade negotiations continue to be high, we believe that considerable differences in US tariffs on goods from China and other countries will remain. This gap is likely to trigger trade diversion effects in two different forms:

1. **Rerouting of Chinese exports from the US to other regions, including the EU.** Otherwise, industrial overcapacities in China would rise, a long-standing concern of Chinese policymakers, especially in the light of weak domestic demand. A strategic redirection of exports to the EU would make sense, since especially mature European economies are comparatively similar to the US in terms of demand, consumer choices, etc. Note that in 2024, China exported goods to the US worth nearly USD 440bn, compared to more than USD 550bn to the EU. An additional influx of Chinese goods into the European market could strain local manufacturers in sectors where they directly compete with Chinese producers. Examples are the machinery and the high-value consumer goods industry which may be forced to cut prices to maintain market shares. To mitigate such adverse effects, EU policymakers have been contemplating the implementation of anti-dumping duties to protect its industries. However, this would also increase the risk of countermeasures by China in the form of additional barriers for EU exports.
2. **EU exporters increasing their exports to the US**, particularly in industries like machinery, and chemicals, as higher US tariffs make Chinese goods substantially more expensive. However, European manufacturers (partly) compete with other countries such as Japan and South Korea.

At this stage, it is difficult to say how big the two “deflection” effects will be, given the uncertainties on trade policies of the US, the EU and China. Since Trump 1.0, the partial redirection of Chinese exports from the US to the EU outweighed the EU’s gains of market shares in the US (see chart 1.2). In 2018, about 21% of all US goods imports stemmed from China compared to less than 14% last year. At the same time, China’s share of EU imports rose from 18% to 21-22%. Of course, China’s increasing market share in the EU does not only reflect tariffs but also other factors, such as the rise of China as a major producer of cars and green technology goods (solar panels, batteries, etc.).

CHART 1.2: TRADE DIVERSION SINCE TRUMP 1.0

IMPORT SHARES, IN %



Source: IMF, The Investment Institute by UniCredit

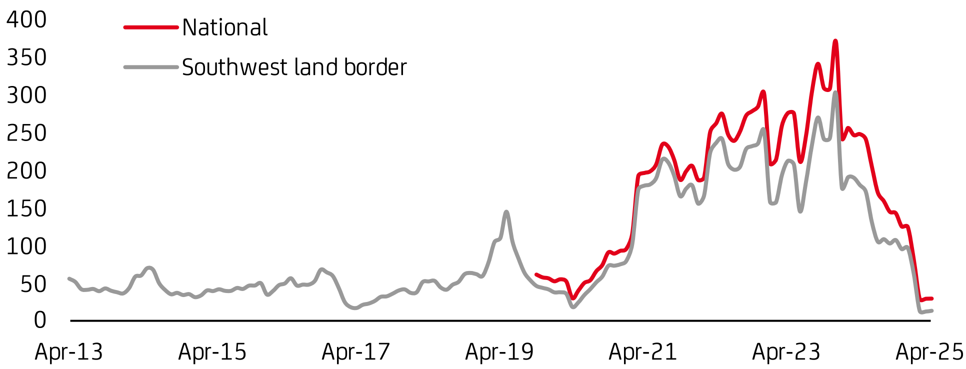
Why US unemployment may not rise by much

The US labour market has so far remained solid in the immediate aftermath of tariffs. While labour demand has continued to soften along its pre-tariffs trend (with job openings continuing to gradually decline), it is now currently in broad balance with labour supply (as evident in the unemployment rate remaining at a still low 4.2% in April). In this section, we discuss how key developments in immigration and tariffs are likely to impact the unemployment rate.

The Census Bureau estimates that the population increased 3.3 million (1.0%) in the year to mid-2024, the highest since the 1990s, with net immigration accounting for 84% of that rise. More recent indicators, including data from the Department of Homeland Security on encounters between migrants and Customs and Border Patrol agents at the border, suggests that immigration slowed meaningfully over the second half of last year, as the Biden administration acted to tighten immigration policy. The fall in immigration has accelerated in the first three months of the second Trump administration (see chart 1.3). Indeed, the Trump administration has pledged to reduce immigration, mostly illegal immigration, and carry out the largest deportation of undocumented migrants by any US president (more than one million people!). We suspect that the latter will not happen, and deportation efforts will be limited. However, it seems likely that net immigration will continue to be materially lower under President Trump than in recent years. This will slow the growth of labour supply, bringing down the unemployment rate as fewer workers will look for jobs.

CHART 1.3: THE FALL IN IMMIGRATION HAS ACCELERATED UNDER TRUMP

US BORDER PATROL ENCOUNTERS AT THE BORDER, BY MONTH, THOUSANDS OF PEOPLE



Source: US Customs and Border Protection, The Investment Institute by UniCredit

The impact of higher tariffs on the unemployment rate is, in theory, ambiguous. On the one hand, the sharp rise in economic uncertainty (mostly due to US trade policy uncertainty) will lead firms to delay hiring, and tariff-induced higher inflation will weigh on consumer demand, both reducing labour demand and applying upward pressure on the unemployment rate. On the other hand, tariffs could weigh on labour productivity (output per hour), both in the near term (via supply-chain disruption) and longer-term (via reduced specialisation, economies of scale, and technological transfer embodied in – and associated with – trade flows). This could require more labour input to produce the same level of output, pushing down on the unemployment rate.

Overall, we expect the labour market will loosen, and the unemployment rate will rise, but not by much. This will limit how much the Fed can cut interest rates with inflation likely to move significantly higher over the next year due to tariffs. We see just one 25bp rate cut this year (in 4Q25).

FOCUS 1

Tug-of-war between US and China stress-testing global value chains

Author: Andreas Rees

In the last two or three decades, the organization of production facilities were undergoing massive transformation. Thanks to reduced costs of communication and transportation, many companies sliced up their supply chains on an international level. Production activities were fragmented and dispersed across a multitude of countries. Typically, labour-intensive tasks were transferred to emerging markets with lower wage levels, while activities requiring lots of capital and knowledge were kept at home or outsourced to other industrialized countries. As a result, many of the goods have not completely been produced just within the borders of one country and then shipped to another. Instead, and for example, US imports labelled “Made in China” have also included production activities in the form of input goods from other countries. Over the years, such global value chains (GVCs) have become a cornerstone of global trade, accounting for about 50% of worldwide traded goods and services.

Hence, the focus, not to say the obsession, of US President Trump on bilateral trade imbalances is highly anachronistic. Just looking at US exports and imports data neglects the complexity of global trade. Think about the production of an iPhone, which involves a vast network of suppliers and assemblers across multiple countries. The GVC starts with the conception and design in the US. High-tech components come from Japan, South Korea, Germany, the US and some other countries. For a long time, the iPhone has then primarily been put together in China by Taiwanese companies. However, India, in particular, but also Vietnam have recently also become a significant hub for assembling iPhones destined for the US market.

Higher US tariffs and the uncertainty about future US trade policies are likely to throw a spanner in the works of international multi-stage production processes. Negative ripple effects could especially stem from the trade tensions between the US and China and a still high US tariff of 30% on Chinese goods for 90 days, after slashing it from 145%. This may also impair production and trade activities of other countries and regions, such as the EU, Japan, Emerging Asia, etc. The so-called GVC participation rate measures such negative effects by assessing the potential damage tariffs and other trade restrictions cause on a country’s exports (see also box on GVC terminology). More concretely, the GVC participation rate shows to which extent a country is part of an international multi-stage production and trade process, as a share of a country’s total exports to the world.

GVC TERMINOLOGY

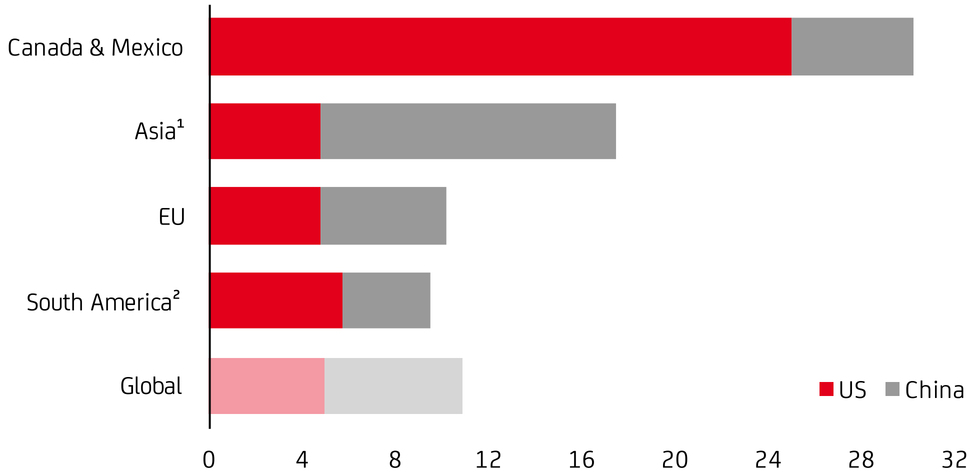
GVCs consist of two pillars, the so-called backward integration and forward integration. Backward integration accounts for the import content of a country’s exports. For instance, it measures the value added which is imported by the EU in the form of intermediate inputs from other countries, such as the US and China, and then used to generate exports of the EU. Forward integration accounts for the EU’s exports which are used by other countries, say the US (or China), as intermediate goods in the production of US (Chinese) exports. The GVC participation rate equals the sum of these two components and is measured as a share of the EU’s gross exports to the world. The higher this share, the more exposed is the EU in its export activities to frictions in GVCs.

In the following, we have calculated GVC participation rates, which relate to multinational production processes of some major regions such as the EU and to which the US and China also contribute. In other words, we are asking a simple but important question: How exposed is the EU to frictions in its global supply chains due to the trade war between the US and China?

According to our calculations based on data from the United Nations Conference on Trade and Development (UNCTAD), there were significant differences across major regions. With a share of about 10% each, South America and the EU were considerably less vulnerable than Asian countries with 17% (see chart 1.4). Put it differently, about one tenth of the EU's total exports were part of a cross-border supply chain to which the US and China also contributed. Obviously, the EU's huge internal market has been paying off here, as the large majority of the EU countries' cross-border supply chains were located within the European Union itself. However, keep in mind that a GVC participation rate of 10% in terms of total exports still means that about 4% of EU GDP could be at risk. Unsurprisingly, with a GVC participation rate of 17%, Asian countries are more exposed to shocks, especially from China. Even more vulnerable would be Canada & Mexico (30%) in the case of US tariff hikes on their exports, given their strong interconnectedness with the US.

CHART 1.4: GVC PARTICIPATION RATE OF COUNTRIES AND REGIONS WITH THE US & CHINA

IN % OF TOTAL GROSS EXPORTS OF COUNTRIES/REGIONS (2022; LATEST AVAILABLE DATA)



Source: UNCTAD-EORA GVC Database, The Investment Institute by UniCredit

1. South America includes Argentina, Bolivia, Brazil, Chile, Colombia, Peru and Uruguay.

2. Asia includes Bangladesh, Cambodia, India, Indonesia, Japan, Malaysia, Pakistan, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam.

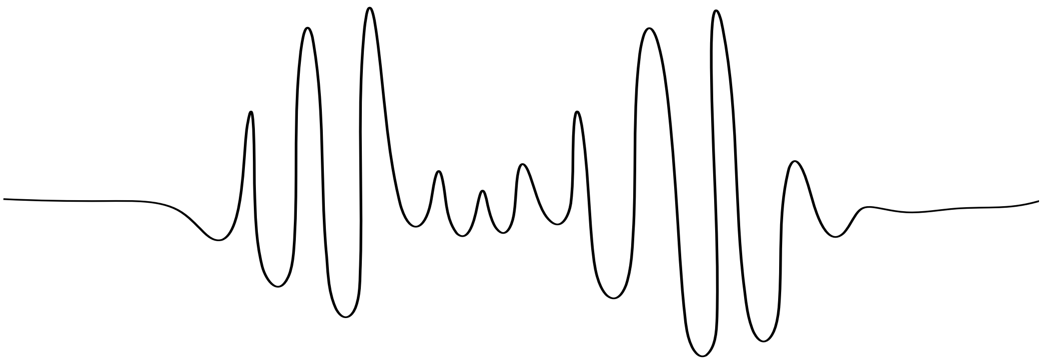
Market Stories

Authors: Francesco Maria Di Bella, Tobias Keller, Stefan Kolek, Roberto Mialich, Jonathan Schroer, Christian Stocker, Thomas Strobel, Michael Teig

What's going on in the market?

THE NOISE

After Trump's abrupt tariff announcements sparked a sharp sell-off, reflecting investor unease over a global trade war and potential recessionary pressures, particularly in the US, markets continued to swing on tariff threats and speculation over Fed independence, only to reverse course as cooler signals emerged. Recent gains in equity indices, most notably in the DAX, reflect investor relief over cooling US-China trade tensions and renewed optimism around Germany's fiscal pivot. Beneath the surface, investor conviction is still taking shape. Although markets remain sensitive to policy signals and headline-driven shifts, there are indications of greater stability.



THE SIGNAL

While Trump's more extreme policy instincts have run up against the discipline of the (bond) market, the need for stable policy and clear direction has seldom been more pressing. Surging long-end yields forced key reversals – most notably a tariff delay and a reaffirmation of Fed Chair Jerome Powell's position – highlighting the limits of US executive power. While some damage to confidence has already been done and further softness in the US dollar appears likely, Trump's most recent moves offer reassurance. Nevertheless, in an environment still marked by uncertainty, and with markets remaining vulnerable to further shocks, we continue to hold to the view that extremes in sentiment should be accurately assessed, favouring high-quality assets.

Equities

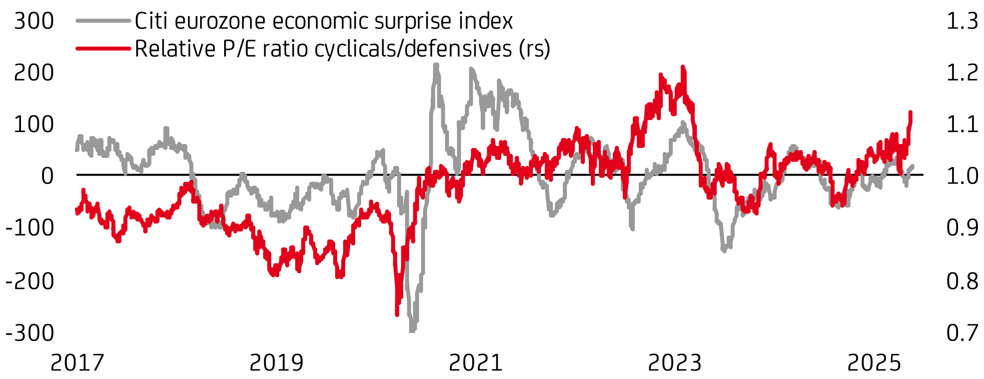
Stock markets recover to levels seen just before "Liberation Day"

Global stock markets have recently stabilised as a result of de-escalation efforts in ongoing tariff disputes. However, this stabilisation is still on shaky ground, as it depends heavily on the further course of trade and tariff talks between the US and its trading partners. The Trump administration has continued to soften some of its most aggressive tariff policies, fuelling hopes that a resolution to ongoing disputes may be within reach. Following a recent US-China agreement to reduce tariffs for 90 days, in particular, there is cautious optimism about potential progress being made in the US-China tariff dispute over the coming weeks and months. In combination with broadly sound earnings releases for the first quarter, this has helped global stock markets recover to levels seen just before Trump's "liberation day" tariff announcements on 2 April. Nevertheless, given still-prevailing uncertainty, stock markets are unlikely to find the momentum for new, sustained uptrends to be established in the near term. While we expect the volatile environment to continue into the summer, we have raised our 2025 year-end targets for the S&P 500 to 6,100 index points and for the Euro STOXX 50 to 5,600 index points (for more index targets, see risky asset forecast table on page 18).

The recent tariff reprieve between the US and China signals a tentative easing of trade tensions. However, tariffs on both sides remain well above pre-April 2 levels, leaving the world's two largest economies – together accounting for roughly half of global GDP – operating under materially tighter trade conditions. While further negotiations may yield incremental progress, a comprehensive rollback of tariffs appears unlikely in the near term, with complex deal-making still ahead. In the meantime, sufficient damage may well already have been done, thereby rekindling recession fears as hard data weakens and adding to concerns about the outlook for equity markets. Against this background, a recent rally in equities, and particularly in European **cyclicals** versus **defensives** (see Chart 2.1), does not seem compatible with economic downside risks. Although we do not expect a recession to take hold, valuations of cyclicals remain elevated compared to their defensive peers. This bears the risk of further market volatility if evidence of a broader global economic slowdown continues to build. From a risk/return perspective, we currently prefer defensives over cyclicals.

CHART 2.1: EUROPEAN CYCLICALS LOOK EXPENSIVE

12M FWD P/E RATIO EUROZONE CYCLICALS/DEFENSIVES AND ECONOMIC SURPRISE INDEX

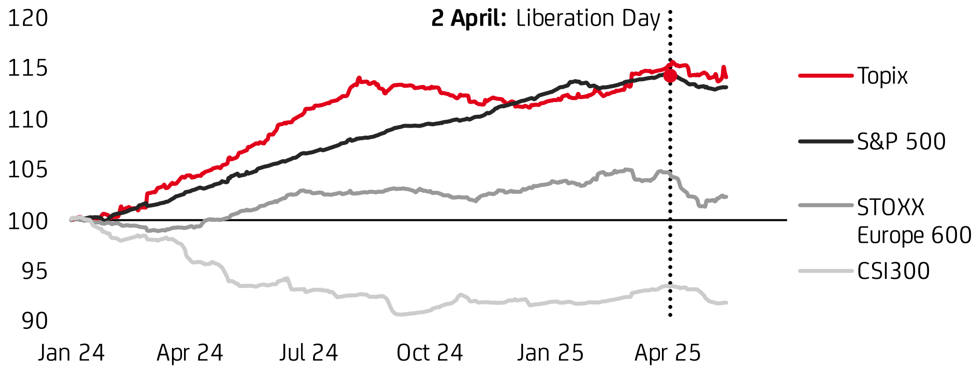


Source: Bloomberg, The Investment Institute by UniCredit

Earnings estimates have come under pressure since Trump's sweeping tariff announcements on 2 April (see Chart 2.2). Twelve-month forward earnings estimates for the STOXX Europe 600 have fallen by around 3% and for the S&P 500 by 2%. More recently, however, early signs of stabilisation have begun to emerge amid the easing of tariff tensions. We expect most of the negative effects on company earnings from US-tariff uncertainty to materialise already in 2025. Given our economic forecasts, earnings growth should rebound in 2026. Our estimates are for an increase of about 10%.

In the past, consensus earnings estimates started to recover six to nine months before an economic trough was reached. This would imply a cyclical bottoming-out of earnings estimates sometime in 3Q25. With a new upward trend in earnings estimates likely emerging in 3Q25, the stock-market environment should continue to stabilise, creating promising opportunities again. From a relative perspective, Europe stands to benefit from structural stimulus driven by increased infrastructure investments and higher defence spending (e.g. tenders must be made Europe-wide). These are likely to become more evident in 2026, providing significant support to the profits of European companies.

CHART 2.2: EPS ESTIMATES HAVE BEEN UNDER PRESSURE SINCE "LIBERATION DAY"
12M FWD EARNINGS ESTIMATES, 2024=100



Source: Bloomberg, The Investment Institute by UniCredit

Chinese equities have also been under pressure since Trump's tariff announcements, with earnings estimates lowered amid ongoing trade uncertainty. The Shanghai and Shenzhen markets, for example, have reflected this strain (see Chart 2.2). However, the recent 90-day tariff reduction agreement between the US and China has provided (temporary) relief to China's slowing economy and has buoyed market sentiment. Moreover, targeted stimulus measures by Chinese authorities have begun to stabilise sentiment. Beijing recently passed the Private Sector Promotion Law in an effort to reinforce the vital role of private firms in economic modernisation and to ensure fair market access. This legislative move aligns with a broader strategy to foster innovation and industrial growth. Additionally, China has introduced targeted fiscal measures to stimulate domestic demand and support businesses. These initiatives, coupled with a more collaborative approach between the government and entrepreneurs, suggest a stabilising outlook for Chinese equities, contingent on the evolution of trade relations and domestic economic reforms. While the latest trade agreement is a positive step, substantial progress on resolving underlying trade issues will likely remain gradual.

Japanese equities have remained relatively resilient in the face of global trade tensions, with the Topix supported by stable domestic demand and a steady corporate-earnings outlook. While external uncertainties surrounding US-China trade relations have weighed on investor sentiment, Japan's limited direct exposure to tariffs has helped cushion their impact. Notably, Japan was one of the first countries to engage in trade talks with the US administration. The two countries agreed to intensify tariff discussions, aiming to reach a mutually beneficial deal by June. Continued corporate governance reforms and strong share-buyback activity have further supported market confidence. Looking ahead, structural themes, such as automation, digitalisation and green investment, are likely to support performance, while a stronger yen could pose challenges for exporters, potentially reducing their price competitiveness abroad. Nonetheless, Japan's economic outlook remains closely tied to global growth dynamics and monetary-policy signals from the Bank of Japan (BoJ).

Fixed Income

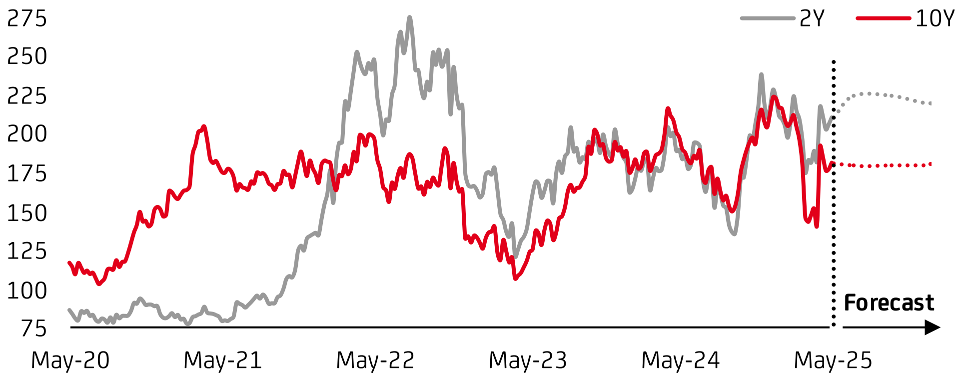
Government bonds

Developments regarding the trade war have remained key drivers of performance in fixed-income markets. Following their positive and rather stable performance in the second half of April, government bonds have recently come under selling pressure, after the US and China lowered tariffs. Markets have moderately reduced their expectations regarding future rate cuts, with OIS forward rates currently indicating 50bp of rate cuts by both the Fed and the ECB by year-end. Despite the recent sell-off, the 7-10Y UST Bloomberg index has risen by 3% so far this year, while the corresponding Bund index is in slightly negative territory. Italian govies have outperformed Bunds, with the 10Y BTP-Bund spread tightening by around 20bp, to almost 100bp, in the past month. Appetite for Italian paper has increased since the rating upgrade by S&P in April, and due to an overall improvement in risk appetite and the perception of low idiosyncratic risk.

The 10Y UST and Bund yields have risen to 4.5% and 2.65%, respectively, at the upper end of their trading ranges in the past month. In our view, current levels better reflect the economic outlook in the US and the eurozone. In particular, we do not think the US economy will face a massive slowdown due to tariffs, and recent hard data seem to corroborate this view. Similarly, although some caution on Trump's fiscal policy is warranted given his proposal to cut tax, the possibility of uncontrolled spending by his administration appears remote, in our view, limiting a possible source of upward pressure going forward. On the other hand, despite the expected negative impact from tariffs on the eurozone economy, the fiscal "bazooka" proposed by German Chancellor Merz, along with a more positive attitude towards public spending, is likely to enhance growth and is set to structurally increase the supply of government bonds in the future. Hence, although volatility will likely remain high going forward, we do not expect to see significant moves in long-dated UST and Bund yields.

The 10Y transatlantic spread currently stands at 180bp, in line with its average so far this year. We expect it to remain at this level in the coming quarters. USTs and Bunds have recently been poorly correlated, reflecting the occurrence of idiosyncratic (and often conflicting) events. While they are unlikely to diverge, US and German govies could remain less correlated than they were in the past.

CHART 2.3: WE EXPECT STABLE UST-BUND SPREADS IN THE COMING QUARTERS
TRANSATLANTIC SPREADS (BP)



Source: Bloomberg, The Investment Institute by UniCredit

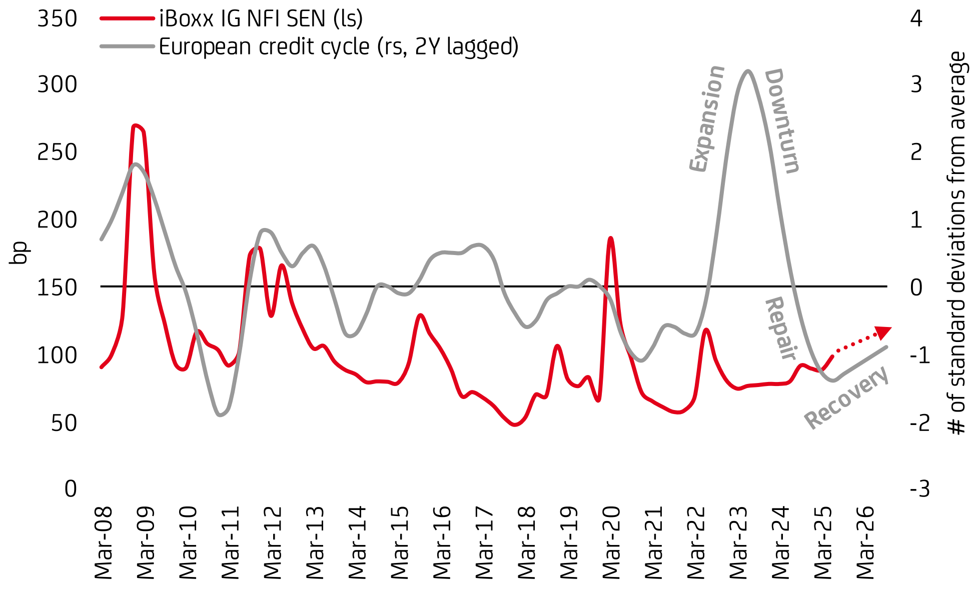
Corporate credit

Corporate credit markets have recovered following a sharp selloff after the announcement of tariffs by President Trump on 2 April. Credit-risk premiums trade close to levels seen before 1 April. In terms of sectors, however, a certain degree of investor differentiation is evident. The sectors most exposed to trade tensions – basic resources, consumer goods, personal & household goods and technology – have underperformed, while more domestic-economy-focused sectors – such as banks, telecoms and utilities – have outperformed.

It still needs to be seen whether and how the trade conflict with the US will be settled. However, the 1Q earnings season has been mixed so far, confirming the deteriorating momentum in credit metrics. This is also reflected in an increase of the volume of fallen angels to EUR 6.1bn YTD, which (slightly) outpaced that of rising stars (EUR 5.9bn). The volume of fallen angels was driven by issuers from the personal & household goods, automobiles & parts and chemicals sectors; in the case of rising stars, it was driven by upgrades of issuers from the utilities and technology sectors.

As shown in Chart 2.4, the credit cycle remains in its recovery phase, which is characterised by a gradual increase of leverage of issuers. While corporates stick to conservative, cash-preserving financial policies, geoeconomic tensions are likely to weigh on credit metrics. We see moderate scope for spread widening in the coming months – by 10-15bp for investment-grade seniors and around 100bp for high-yield non-financials by the end of the year. Carry remains appealing, offering a buffer for total-return performance. We continue to prefer investment-grade over high-yield credit.

CHART 2.4: CREDIT CYCLE RECOVERY PHASE ARGUES FOR SLIGHTLY WIDER SPREADS
EUROPEAN CREDIT CYCLE VS IBOXX IG NFI SEN SPREADS



Source: S&P Global, The Investment Institute by UniCredit

Commodities

Crude oil

OPEC+ caught markets off guard by hastening the unwinding of its voluntary output cuts in what appears to be an effort to enforce discipline among non-compliant producers, such as Iraq and Kazakhstan. The group plans to restore supply of 960kb/d in 2Q25, including 411kb/d in June – a move that adds to mounting concerns about potential oversupply. Saudi Arabia, although grappling with fiscal strain due to its relatively high breakeven price, appears prepared to endure near-term losses to protect market share and avoid friction with Washington. Without a notable pickup in global growth, which remains closely linked to the trajectory of US trade policy, a meaningful oil-price recovery looks unlikely, despite the recent rise in oil prices following the easing of US-China trade tensions. We are maintaining our 2025 oil price forecast at USD 65-70/bbl, with risks still tilted to the downside.

Natural gas

Dutch TTF natural gas prices have been in recovery mode since reaching lows for the year at the end of April. Current prices of around EUR 35/MWh are up around 10% off these lows. There have been two main drivers behind the price recovery. First, European companies have taken advantage of the low price levels to replenish depleted supplies after the cold winter. Second, the announcement of a détente in the trade tensions between the US and China led to more bullish sentiment for the Asian macroeconomic picture and prompted more demand out of Asia. We expect this near-term price recovery to continue as the need for restocking in Europe in the coming months remains acute. We are expecting average price levels of EUR 40-45/MWh for 2025 and believe that the previous low prices reflected an overly negative outlook for the global economy and did not sufficiently factor in the ongoing need to replenish European gas stocks in advance of the coming winter.

Gold

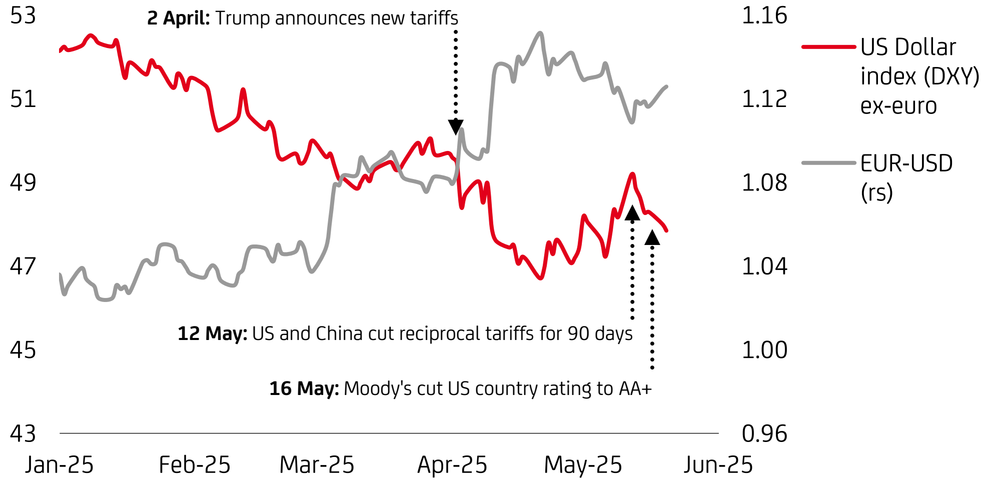
Gold continues to hold above 3,000 USD/oz, supported by the still high level of uncertainty surrounding Trump's trade policies. Over the course of 2024, gold rose about 27%, and the precious metal has already matched that performance in the first five months of this year. However, the recently announced agreement between the US and China to reduce tariffs for 90 days as trade talks are expanded has caused gold prices to fall and hover in the 3,200-3,300 USD/oz range. Despite the latest developments, we expect geopolitical uncertainty to remain high, which will continue to support gold as a safe-haven asset, although further (technical) setbacks are likely. Moreover, other factors such as ongoing central bank buying and rising retail demand for gold-backed ETFs should support the precious metal in the medium term. As a result, we expect gold to rise gradually this year to a range of USD 3,400-3,500/oz by the end of 2025 and USD 3,500-3,600/oz by the end of 2026, with risks to the upside.

FX

Medium-to-long-term picture remains bearish for the greenback

The announcement of new tariffs by President Trump on 2 April accelerated the fall of the US dollar. Signs of de-escalation in trade tensions between the US and China temporarily dragged EUR-USD below the key 1.12 threshold after its year-to-date peak above 1.15 on 21 April, but the USD gains were reversed after Moody's cut the US credit rating to AA+ from AAA, aligning itself to the other major rating agencies. This can be seen in the chart below, in which EUR-USD is plotted against the US Dollar Index (DXY) excluding the euro from the original basket. President Trump's policy announcements have probably created a structural credibility problem for the US unit. A return to sounder policy statements by the US administration, the lack of a recession in the US (our current baseline scenario) and less easing by the Fed than expected by markets (we are pencilling in only one rate cut this year) are unlikely to offer the USD some lasting support. The medium-to-long-term picture for the greenback is set to remain bearish, reflecting a further decline in its dominant position as the world's preferred currency (see our focus section below). This, in turn, is expected to keep EUR-USD on a bullish trend towards at least 1.14.

CHART 2.5: EUR-USD STILL ABOVE LEVELS PRIOR TO THE US TARIFFS ANNOUNCEMENT



Source: Bloomberg, The Investment Institute by UniCredit
Note: The US Dollar Index (DXY) ex-euro is calculated by excluding the EUR-USD exchange rate from the original DXY index and by rebasing its weight (57.6%) among the other five major currencies included in the index (JPY, GBP, CHF, CAD and SEK).

FOCUS 2

USD and Treasuries – risks of disaffection?

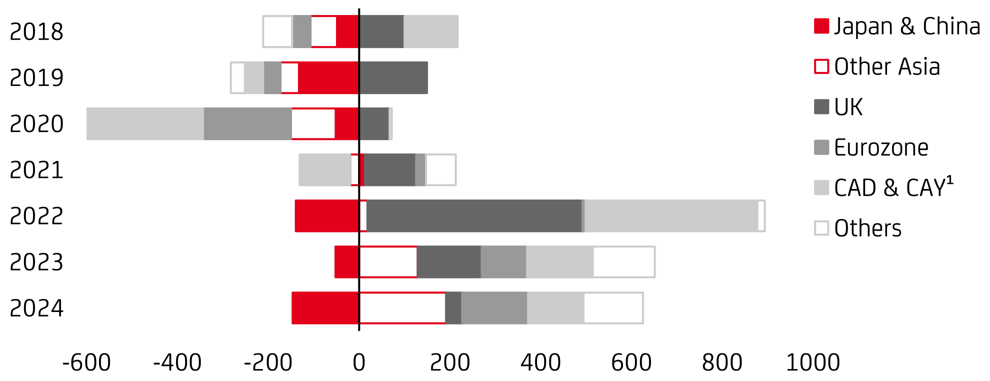
Authors: Francesco Maria Di Bella, Roberto Mialich

Safe-haven assets are liquid securities with low default risk that tend to preserve their value during times of elevated uncertainty. Short-dated US Treasuries (USTs) represent an excellent example as they are very liquid, are backed by the US government and benefit from the importance of the dollar as the world's key currency in reserves and transactions. The tariff saga and its impact on markets have recently raised doubts regarding the status of US securities (and of USTs in particular) as safe-haven assets. In particular, markets appear to be concerned about recent UST volatility (ideally, price volatility of safe-haven assets should be contained) and disaffection by foreign investors.

USTs have been very volatile since the beginning of April, underperforming other govies. In our view, these moves mostly reflect elevated economic uncertainty brought about by the trade war. The recent decline in volatility measures is reassuring in this respect. That some policies of the Trump administration could put upward pressure on UST yields going forward (such as the prospect of tax cuts) will not prevent USTs from maintaining their safe-haven status, in our view.

China and Japan, the biggest holders of USTs, have been cutting their UST portfolios in the past few years. Rumours have been circulating regarding the possibility that these and other countries might reduce their UST holdings in retaliation against US tariffs. There are a few reasons why these risks seem exaggerated, in our view: **1.** The reduction in UST holdings could also be due to a general diversification of reserves. In general, UST demand by foreign officials has been modest in the past few years, but this has generally reflected stable FX reserves since 2017. **2.** As highlighted in Chart 2.6, investors from other jurisdictions (particularly from the UK and the Cayman Islands) have stepped up their purchases since 2022. As we highlighted in our Coffee Break – What foreign demand for USTs tells us, private investors have been replacing officials. **3.** USTs are historically less exposed to foreign investors, since the share of USTs held by foreign officials is significantly lower than it was ten years ago (30% vs. 50%). This is the result of unlimited QE by the Fed and strong demand from domestic retail investors. **4.** There is a lack of effective alternatives. USTs are, by far, the most liquid government bonds, and their market is more advanced and efficient than other government bond markets that are also regarded as having limited default risk. Gold is often regarded as an alternative, but it does not meet regulatory requirements related to balance-sheet ratios, entails storage costs and has a limited supply.

CHART 2.6: TRACKING UST DEMAND BY FOREIGN INVESTORS
NET PURCHASES OF LONG-DATED USTS (USD BN)

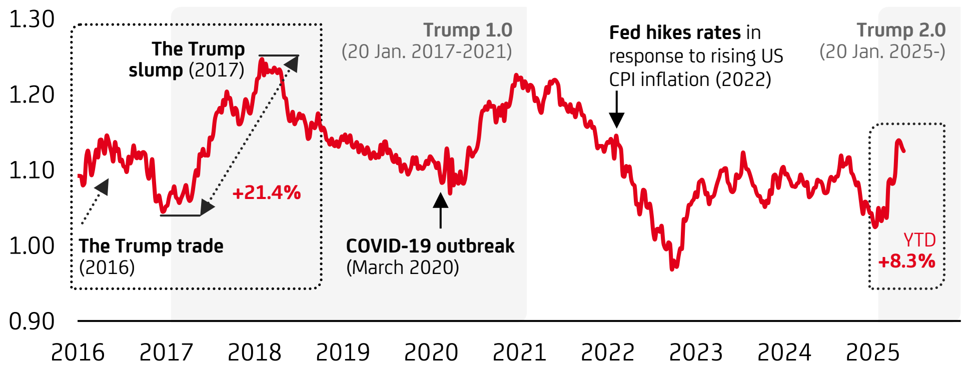


Source: US Treasury, The Investment Institute by UniCredit
1. "CAD & CAY" includes Canada, Cayman Islands, Bermuda and British Virgin Islands.

The safe-haven status of USTs also depends on the significance of the greenback. Disaffection with the USD has mostly been behind its decline since March. The inability of the US unit to benefit from favourable yield spreads between USTs and other government bonds and from the recovery attempts of US stocks are clear signs of the "dollar problem". The appreciation of the JPY, the CHF and the EUR against the USD so far this year (between 6% and 7%), as they are currently being regarded as the main safe-haven currencies (see our Short View – Is the USD facing a peso problem? , 23 April 2025), is also proof of the diminishing appeal of the US unit. Similar behaviour of the USD characterised the beginning of Trump's first term in 2017, as shown in Chart 1.2. The initial euphoria (the so-called "Trump trade") ahead of the 2016 presidential election turned into a "Trump slump", as many of his reforms disappointed. After falling to 1.0341 in early January 2017, EUR-USD rallied above 1.25 in February 2018 (+21.4%).

CHART 2.7: TRUMP 2.0 VS. TRUMP 1.0: IS HISTORY REPEATING ITSELF?

EUR-USD



Source: Bloomberg, The Investment Institute by UniCredit

Concerns over Trump's policies remain a drag on the USD. In addition to the risk of a recession in the US and more-intense easing by the Fed, investors have become worried about tensions within the US administration, the implications of a wider US budget deficit and rising US debt, as highlighted by the recent US credit rating's downgrade by Moody's, as well as more conflict between Trump and the Fed. Still, the lack of a serious alternative to the USD as the world's reference currency represents the main obstacle to its dethronement anytime soon. The USD's dominant position as the world's reference currency remains undisputed: as of the end of 2024, the USD was held in global reserves (58%) and was used in international debt (64%), international loans (54%), trade invoices (54%) and international payments (58%), with a large share of bilateral trades in FX market transactions also involving the USD (88% out of 200%). Alternatives, such as the euro and the Chinese yuan, remain far behind in this respect. A return to the gold standard, with gold replacing the USD as the reserve currency, is also unlikely. Bitcoin is too volatile and not backed by official institutions or by physical assets to be considered as an alternative to the USD. A further decline in the dominance of the USD, primarily in FX reserves, trade invoicing and international payments, is expected over the coming years but the lack of a clear competitor makes its dethronement as the world's preferred currency unlikely in the foreseeable future.

Forecast Tables

Unicredit Forecasts

GDP, CPI AND BUDGET BALANCE FORECASTS

	Real GDP (% Y/Y)			Consumer prices (% Y/Y)			Budget balance (% of GDP)		
	2024	**2025**	**2026**	**2024**	**2025**	**2026**	**2024**	**2025**	**2026**
Global	**3.2**	**2.7**	**2.9**						
US	**2.8**	**1.5**	**1.9**	**2.9**	**3.2**	**3.2**	**-7.3**	**-7.8**	**-8.3**
Eurozone	**0.8**	**0.9**	**1.0**	**2.4**	**2.1**	**1.9**	**-3.1**	**-3.4**	**-3.3**
Germany	-0.2*	0.1*	1.3*	2.2	1.7	1.7	-2.8	-2.2	-3.0
France	1.1	0.6	1.1	2.0	0.9	1.4	-5.8	-5.6	-5.3
Italy	0.5	0.5	0.8	1.0	1.8	1.7	-3.4	-3.4	-3.0
Spain	3.2	2.4	1.8	2.9	2.5	2.0	-3.2	-3.0	-2.5
UK	1.1	1.1	1.1	2.5	3.1	1.9	-5.7	-4.0	-3.8
China	**5.0**	**4.0**	**3.8**	**0.6**	**0.9**	**1.8**	**-7.4**	**-7.6**	**-7.7**
Japan	**0.1**	**0.9**	**0.7**	**2.7**	**2.3**	**1.9**	**-3.5**	**-3.5**	**-3.0**
India	**6.5**	**6.2**	**6.3**	**4.7**	**4.2**	**4.1**	**-7.4**	**-6.9**	**-7.2**

Source: The Investment Institute by UniCredit
*Non-WDA figures. Adjusted for working days: -0.2% (2024), 0.2% (2025) and 1.0% (2026)

CENTRAL BANKS WATCH

	Current	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
Fed	4.50	4.50	4.50	4.25	4.25	4.00	4.00	4.00
ECB	2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.75
BOE	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75
BoJ	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00
Riksbank	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Norges Bank	4.50	4.25	4.00	3.75	3.50	3.50	3.50	3.50

Source: The Investment Institute by UniCredit
Note: Figures are end-of-period

INTEREST RATE AND YIELD FORECASTS

	16.05.25	2Q25	3Q25	4Q25
Eurozone				
Depo rate	2.25	2.00	1.75	1.75
3M Euribor	2.10	1.95	1.75	1.75
2Y Schatz	1.86	1.90	1.90	1.80
10Y Bund	2.59	2.70	2.70	2.70
2Y EUR swap	2.02	2.05	2.05	1.95
10Y EUR swap	2.54	2.70	2.70	2.75
10Y Bund-swap spread	-5	0	0	5
2Y BTP	2.09	2.30	2.30	2.20
10Y BTP	3.59	3.90	3.90	3.90
10Y BTP-Bund spread	100	120	120	120
US				
Fed fund rate	4.50	4.50	4.50	4.25
3M OIS SOFR	4.32	4.40	4.23	4.15
2Y UST	3.97	4.15	4.15	4.00
10Y UST	4.44	4.50	4.50	4.50
10Y UST-Bund spread	185	180	180	180

FX FORECASTS

	16.05.25	2Q25	3Q25	4Q25
EUR-USD	1.12	1.10	1.11	1.12
USD-JPY	145	146	145	143
EUR-JPY	163	161	161	160
GBP-USD	1.33	1.28	1.27	1.26
EUR-GBP	0.84	0.86	0.86	0.86
USD-CNY	7.20	7.32	7.30	7.28
EUR-CNY	8.08	8.05	8.10	8.15

Source: Bloomberg, The Investment Institute by UniCredit

RISKY ASSETS FORECASTS

	16.05.25	Mid-2025	End-2025
Oil			
Brent USD/bbl.	63	65	68
Equities			
Euro STOXX 50	5,437	5,200	5,600
STOXX Europe 600	550	525	565
DAX	23,875	23,000	24,500
MSCI Italy	105	100	108
S&P 500	5,917	5,700	6,100
Nasdaq 100	21,336	20,400	22,000
Credit			
iBoxx Non-Financials Senior	95	125	110
iBoxx Banks Senior	94	130	115
iBoxx High Yield NFI	317	450	420

Source: Bloomberg, S&P Global, The Investment Institute by UniCredit

For detailed forecast tables click the following links:
Economics > I **FI >** I **FX >** I **Risky Assets >**

Development of selected financial market indices

From To	**16.05.24** **16.05.25**	16.05.20 16.05.21	14.05.21 16.05.22	16.05.22 16.05.23	16.05.23 16.05.24	16.05.24 16.05.25	16.05.20 16.05.25	**01.01.25** **16.05.25**
STOCK MARKET INDICES (total return, in %)								
MSCI World (in USD)	**13.4**	49.8	-6.6	6.4	25.5	13.4	112.5	**5.1**
MSCI Emerging Markets (in USD)	**10.0**	48.7	-21.0	0.6	16.1	10.0	50.3	**10.2**
MSCI US (in USD)	**14.3**	50.1	-4.3	4.1	29.9	14.3	123.9	**1.9**
MSCI Europe (in EUR)	**8.1**	38.1	2.1	11.3	16.4	8.1	96.5	**10.3**
MSCI AC Asia Pacific (in USD)	**9.8**	42.1	-18.1	4.0	15.9	9.8	53.0	**8.0**
STOXX Europe 600 (in EUR)	**8.4**	39.1	1.0	10.7	16.7	8.4	95.4	**10.4**
DAX 40 (Germany, in EUR)	**26.8**	49.1	-9.4	13.9	17.5	26.8	127.1	**19.4**
MSCI Italy (in EUR)	**21.2**	49.6	-0.1	20.3	38.1	21.2	201.4	**20.9**
ATX (Austria, in EUR)	**25.7**	66.5	-4.9	5.6	23.3	25.7	157.7	**23.8**
SMI (Switzerland, in CHF)	**6.5**	21.4	7.9	1.8	7.8	6.5	51.1	**9.3**
S&P 500 (US, in USD)	**14.0**	48.7	-2.6	4.3	29.4	14.0	124.6	**1.8**
Nikkei (Japan, in JPY)	**-1.1**	43.3	-3.7	15.0	31.7	-1.1	107.3	**-4.5**
CSI 300 (China, in Yuan)	**10.4**	32.9	-21.2	2.9	-5.6	10.4	12.0	**-0.7**
BOND MARKET INDICES (total return, in %)								
US government bonds 10Y (in USD)	**3.9**	-6.9	-9.7	-1.5	-2.8	3.9	-16.5	**2.5**
US government bonds (ICE BofA , in USD)	**4.0**	-5.0	-7.3	-1.6	-0.3	4.0	-10.2	**1.9**
US corporate bonds (ICE BofA A-BBB, in USD)	**4.9**	6.2	-10.9	0.2	5.5	4.9	4.7	**1.6**
German Bunds 10Y (in EUR)	**1.4**	-3.6	-8.8	-9.6	1.7	1.4	-17.9	**-0.9**
EUR government bonds 1Y-10Y (iBOXX, in EUR)	**3.0**	0.3	-8.1	-8.6	3.8	3.0	-9.8	**0.1**
EUR corporate bonds 1Y-10Y (iBOXX, in EUR)	**5.2**	5.5	-8.4	-4.1	6.4	5.2	3.5	**1.0**
BOND YIELDS (change in basis points = 0.01 percentage points)								
US government bonds 10Y (in USD)	**5**	102	126	65	81	5	381	**-13**
US government bonds (ICE BofA , in USD)	**-32**	48	183	104	68	-32	377	**-20**
US corporate bonds (ICE BofA A-BBB, in USD)	**-18**	-65	216	100	9	-18	247	**-5**
German Bunds 10Y (in EUR)	**16**	41	106	141	9	16	311	**22**
EUR government bonds 1Y-10Y (iBOXX, in EUR)	**2**	3	109	156	-7	2	261	**14**
EUR corporate bonds 1Y-10Y (iBOXX, in EUR)	**-34**	-81	190	168	-50	-34	195	**6**
SPREADS ON GOVERNMENT BONDS (credit spreads, change in basis points)								
US corporate bonds (ICE BofA US Corporate Master)	**4**	-129	57	0	-60	4	-127	**11**
US corporate bonds (ICE BofA US High Yield)	**8**	-442	136	8	-167	8	-462	**24**
Euro corporate bonds (ICE BofA Euro Corporate AAA-A)	**-9**	-86	64	7	-49	-9	-71	**-4**
Euro corporate bonds (ICE BofA Euro High Yield)	**-7**	-352	191	-19	-138	-7	-329	**19**
EURO EXCHANGE RATES (change in %)								
US dollar (EUR-USD)	**3.0**	12.3	-14.0	4.4	0.3	3.0	3.7	**7.7**
British pound (EUR-GBP)	**-1.8**	-2.7	-1.2	2.2	-1.2	-1.8	-5.0	**1.6**
Swiss franc (EUR-SFR)	**-4.5**	4.2	-4.3	-7.1	0.8	-4.5	-10.8	**-0.3**
Japanese yen (EUR-JPY)	**-3.1**	14.7	1.9	9.5	13.5	-3.1	41.1	**0.0**
COMMODITIES (change in %)								
Commodity Index (GSCI, in USD)	**32.1**	2.6	-1.9	9.5	19.6	32.1	71.7	**20.2**
Industrial metals (GSCI, in USD)	**-8.4**	74.5	5.4	-17.1	16.4	-8.4	66.7	**2.3**
Gold (in USD per fine ounce)	**33.6**	6.2	-1.3	10.3	20.0	33.6	82.2	**21.0**
Crude oil (Brent, in USD per barrel)	**-21.2**	120.1	66.2	-34.4	7.9	-21.2	100.6	**-12.4**

Source: Refinitiv Datastream, The Investment Institute by UniCredit (as of 16 May 2025)
Note: Past values and forecasts are not a reliable indicator of future performance. Indices cannot be purchased and therefore do not include costs. When investing in securities, costs are incurred which reduce the performance. The return on investments in foreign currencies may also rise or fall as a result of currency fluctuations. So-called synthetic bonds are calculated to reflect the performance of government bonds in a fixed maturity range. In each case, the most "suitable" real federal bond at the relevant time is used as a reference for the yield opportunity of the synthetic bond. The development of the expected yield to maturity is shown under the following conditions: servicing of interest payments and redemption in accordance with the terms and conditions and holding until maturity. In this respect, it is a yield opportunity. The yield opportunities reflect the different risk assessments of the investors for the respective products or countries (higher yield opportunity=higher risk assessment). The synthetic bonds cannot be purchased and therefore do not include any costs. In the case of currencies and commodities, acquisition and/or custody costs incurred are not included.

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Information and data contained in this document is updated as of 16 May 2025.