APRICUS FINANCE

WEALTH MANAGEMENT

June 2025

Geopolitical Risk Has Returned Center Stage

Israel, or to be more precise, Prime Minister Netanyahu, decided it was now or never.

It conducted an attack targeting nuclear sites, scientists and top brass army generals in Iran. We pointed out in the past that single geo-political events, however terrible, have rarely a lasting effect on financial markets, unless they morph into something bigger and wider. This time around, the impact on financial markets has, however, remained very limited, if we go by historical norms.

Equities and fixed income had a rather muted reaction, gold's reaction, while hitting a new all-time high, was short of being extraordinary. Only crude oil jumped 13% from the moment that Washington announced the partial evacuation of non-necessary personnel in the region a few days earlier, to the strikes themselves, and the ensuing military answer by Tehran.

Fears were also building that one of the answers from the Iranian regime would be to shut down the all-important Strait of Hormuz: approximately one-third of global oil trade sails through this critical sea route.

The Unknown Section 899 Of Trump's One Big Beautiful Bill Act, Is Making International Investors Nervous

President Trump labelled the budget proposal, which is currently trying to pass Congress, A 'Big Beautiful Bill' Act. Given the concerns about the US credit rating and deficits, the acronym BBB might seem a bit unfortunate. The definitive version is still unknown: the House and the Senate have typically different priorities and promises vis-à-vis their respective electoral constituencies.

Economically, a lot of the 'new' budget is extending existing tax cuts, which obviously do not add to economic growth. The details are constantly changing; however, the broader impact will be to push the government's indebtedness even higher, at a time when the Federal budget deficit is running close to 7% of nominal GDP. This is hardly good news for US Treasury investors.

What is making foreign investors startled, is the 'unknown' section 899 of the Act. Some are already calling it the 'revenge' tax.

It aims to increase tax rates for individuals and corporations based in countries judged to have 'discriminatory tax policies'. Put it simply, it aims to impose additional taxes on foreign investors in US stocks and bonds, i.e. on their dividends and interest revenue.

Some institutional investors are already reacting to this eventuality or uncertainty. For example, Australian asset manager AMP (USD 88 Bln in assets), or the Future Fund, the sovereign wealth fund of Australia, have already announced that they are now avoiding long term commitments in the United States, be it via Private Equity of infrastructure investments.

We do not want to scare our readers, however that is something that, as international investors, we will need to keep an eye on.

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US: From Growth To Fiscal Concerns

As per Treasury Secretary Bessent's own admission, the 'X-date', the date when the debt ceiling will be hit, could be between August and late summer.

US securities maturing in August and September have accordingly repriced to include the risk that the US Treasury might run out of borrowing capacity by the time they come due. Treasury bills maturing between August and October are currently trading at a 15 to 20 basis points premium.

Other markets have also been repricing the fiscal worries and possible further credit downgrades of US debt.

The cost of insuring against US Treasury default has increased over the past 15 years, with the US now ranking alongside countries like China, Italy, and Greece in terms of default risk, (Credit Derivatives Swaps). The erosion of confidence in the Treasury's ability to pay its debts could lead to further trouble, including higher borrowing costs and a worsening fiscal situation, as investors become increasingly wary of US sovereign debt. That would be negative for the value of the Dollar as well.

In terms of the future path for US rates, President Trump very recently said that he would name a successor to Powell «very soon». Traders are thus expecting a more sympathetic Federal Reserve chairman who may lead to easier monetary policy. Chairman Powell's current term ends in May 2026.

Markets are betting that the current Treasury Secretary, Scott Bessent, will replace him.

US rates traders have since made a record futures bet that the Federal Reserve will take a much more dovish stance after May 2026.

The trade involves selling the March 2026 SOFR (Secured Overnight Financing Rate), contract and buying the June 2026 contract, betting that the new Fed chair will cut interest rates significantly soon after taking office.

Where Are We In Tariffs' World?

Despite the pause in reciprocal tariffs, it is important to remember that US trade barriers have risen significantly versus a few months ago. The United States' 10% baseline tariff on nearly all countries remains in place, alongside higher product-specific tariffs. China still faces a higher than the 30% effective tariff rate, even after the recent 90-day suspension. Alongside this, Canadian and Mexican exports to the US remain subject to a 25% tariff, unless they are covered by the USMCA (United States-Mexico-Canada Agreement).

With China still facing a more punitive tariff rate than other regions, calculating the effective tariff rate on US imports becomes complicated. It is highly likely that some trading will be re-routed to avoid higher tariff rates, and, therefore, where the effective rate ultimately sets will depend on the extent to which US demand for imports falls, or is redirected elsewhere.

Trump also scrapped the so called 'de minimis' rule for direct shipment from China and Hing Kong with a value under USD 800, that faced zero tariffs. The latest duty rates, as they have been changed several times, are 54% and USD 200 per postal item.

The tariffs saga is obviously not over yet, even if the 'reciprocal' tariffs get indefinitely suspended: Within the next couple of weeks, the US Commerce Department is set to announce the outcomes of its investigations into sectors that are deemed vital to national security, including semiconductors, pharmaceuticals and critical minerals. The probes are widely expected to result in taxes on a range of foreign-made products in these industries.

President Donald Trump is already using that authority, under Section 232 of the Trade Expansion Act, to impose import taxes on steel and aluminum, that he launched in 2018. Recently, he has widened the scope by targeting consumer goods that contain the two metals.

By one estimate, from Michigan State University, Trump's steel and aluminum tariffs, currently set at 50%, are hitting almost USD 200 billion worth of steel, aluminum and household items, from fishing reels to brooms and barbeques - or about 4 times the amount that was taxed during his first term.

The end of the suspension in reciprocal tariffs - and thus time for 'negotiations' for the 'Rest of the World' - is approaching fast. The date is 09 July. Currently, only the UK has a 'partial' deal with the US. But with Trump we never know.

Financial Markets: Trading The Acronyms

May turned out to be an unusually strong month for stocks. The MSCI World index essentially erased the entire April sell-off. In the US, the market was led by the US mega caps, while in Europe the German DAX led the charge hitting an all-time high. The best May since 1990 according to the books. So much for the 'sell in May'.

That's even more surprising when the month was marked by a string of positive-negative headlines.

After the suspension in early April of the 'reciprocal' tariffs on the 'Rest of the World' but China, on the 12th of May the United States and China reached an agreement that each would lower tariffs introduced in April by 115 percent, for, yet again, the usual timeframe of 90 days.

After the announcement, the S&P 500 rose by over 3% in a single day.

Ten days later, perhaps out of frustration that Europe was ready to fight back, or at least not surrender to Trump's bullying, he announced a 50% tariff on EU goods, only to backpedal two days later (these tariffs were supposed to be on hold until the 9 July anyway).

We said a surprising rally, because even if the announced tariffs' suspensions are made permanent, between the tariffs because of the fentanyl issue, a blanket 10% tariff on everyone, or tariffs on specific sectors such as on steel and aluminum, tariffs are still the highest in decades compared to just a few months ago, when they simply didn't exist.

Over the last few years, we have been used to acronyms when describing the prevalent investing philosophy: from TINA, (There Is No Alternative - to equities), to FOMO, (Fear Of Missing Out), to the joyful motto during the pandemic of bored-at-home retail investors, YOLO, (You Only Live Once).

So, with time we have been used to shocking announcements by an erratic president, who would soon back down. A columnist for the Financial Times thus coined the now very popular acronym TACO: 'Trump Always Chickens Out'.

On a fit of temper, Trump would send markets lower, then when he backtracks, the markets would recover. Hence the TACO trade.

Recently there is an even less flattering and less elegant acronym circulating among the trading desks: FAFO, which is a slang term, and stands for 'F..k Around Find Out'.

In a trading context, it has been used to describe the market turbulence caused by Trump's policies. Or as the CIO of a macro hedge fund put it: 'it is like being caught in a pinball machine as a result of the policymaking process'.

It remains to be seen if the emergence of these new scornful acronyms will make him change his tactics. If at a certain point he decides to stick to his guns, because he was touched a raw nerve, and he decides to impose high tariffs again on everybody, the consequences would be disastrous for the world economy, and especially for the US one.

On the fundamentals: according to FactSet, 12 months' forward earnings estimates for the S&P 500 rose by 0.7% in May, back to where they were at the end of March. In Europe, estimates for the Euro STOXX rose by 1.4%. Clearly, currently, investors do not see a financial disaster either.

Strategy

We continue to prefer Eurozone equities over US ones.

The US dollar has lost over 10% of its value against the euro, pound, and Swiss Franc since President Donald Trump took office, and it is down against every major currency.

The Trump administration's policies, including tariff hikes, tax cuts, and pressure on the Federal Reserve, are driving investors away and contributing to the dollar's decline.

The dollar's fall could lead to a vicious cycle of dollar and deficit concerns, prompting foreigners to repatriate their money, driving up borrowing costs, and compounding fiscal woes.

Having sold in April (for non-USD accounts) our exposure to US municipal debt, we now have a diminished exposure to US bonds, a large underweight to US equities and, via currency overlay, almost no net exposure to the USD, with the exception of our long-standing Gold exposure, which is obviously quoted in USD.

Our comment from the last couple of months is still valid: the probability of counter-trend rallies or large selloffs is high given low liquidity across asset classes and conflicting news flows. A neutral position is therefore warranted.

Equity

We are neutral. We keep an overweight in Eurozone and Asian ex Japan equities versus the US.

Fixed income

We continue to favor exposure to credit versus duration. However, we have increased the quality of our holdings. We have exposure to investment grade credit, European high yield, hybrids, financials' subordinated debt.

Foreign Exchange

The Japanese YEN exposure is mostly hedged.

Gold

We continue to keep our allocation to Gold.

Positioning

Overall Exposure

We are now Neutral Equities, and Neutral Fixed Income, with a Gold position, JPY hedged.

Equity: Neutral

We have an Overweight to the Eurozone and an Underweight in US equities, Underweight US technology, Overweight Nasdaq 100 equal weight, Overweight S&P 500 equal weight, Neutral UK, Neutral Japan, Overweight Asia ex Japan.

Thematic Equities

European Family Holdings, Asian Technology, Health Improving Technologies and Services, European Champions.

Fixed Income: Neutral

Long 1 to 3 years US Treasury Notes. Long 20+ years US Treasuries, Underweight Sovereigns. Overweight Investment Grade EUR and USD Bonds. Overweight High Yield in EUR and Underweight in USD. Long US inflation linker.

Thematic Fixed Income

Long Hybrids, Long Subordinated Financial Credit.

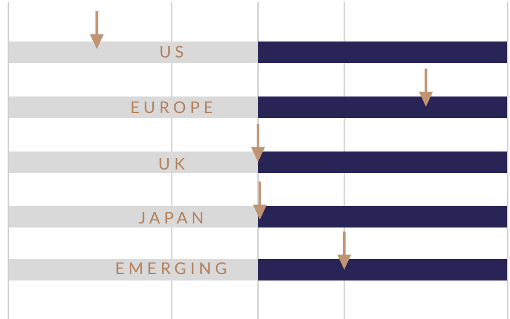
Currencies: Long Turkish Lira against Euro.

Commodities: Overweight

Long Gold.

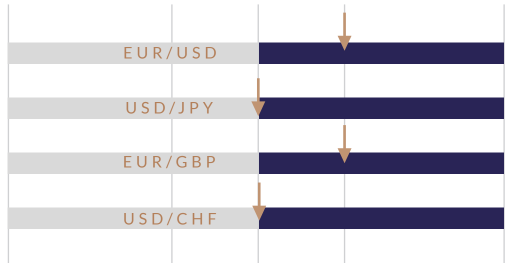
Conviction thermometer

Equities



Bonds

Currencies



Commodities

Negative view Positive view

Market overview as of 31st May 2025

Equities (local ccies)	Level	5D	MTD	YTD
MSCI WORLD HEDGED USD	2 107,82	1,72%	5,98%	2,86%
US S&P500	5 911,69	1,90%	6,29%	1,06%
MAGNIFICENT 7 (CAP WEIGT.)	161,33	2,52%	11,85%	-4,58%
NASDAQ 100	21 340,99	2,04%	9,13%	1,88%
EUROPE EURO STOXX 50	5 366,59	0,79%	5,42%	12,31%
GERMANY DAX	23 997,48	1,56%	6,67%	20,53%
FRANCE CAC40	7 751,89	0,47%	3,90%	7,74%
BELGIUM BEL20	4 502,08	1,50%	3,79%	8,10%
SWISS MARKET INDEX	12 227,08	0,23%	1,26%	8,60%
UK FTSE100	8 772,38	0,73%	3,79%	9,40%
RUSSELL 2000	2 066,29	1,32%	5,34%	-6,85%
JAPAN TOPIX	2 801,57	2,42%	5,04%	1,83%
MSCI EMERGING	1 157	-1,11%	4,30%	8,86%
MEXICO MEXBOL	57 841,70	-0,45%	4,45%	19,25%
HONG KONG HANG SENG	23 289,77	-1,12%	5,91%	18,01%
CHINA CSI 300	3 840,23	-1,05%	2,02%	-1,88%
INDIA SENSEX	77 414,92	-0,16%	1,75%	4,74%
KOREA KOSPI	2 697,67	4,13%	5,62%	13,82%
HANG SENG TECH	5 170,43	-1,43%	1,74%	16,20%
AUSTRALIA ALL-SHARE	4 759,54	0,85%	4,11%	8,53%

US: Sectors	Level	5D	MTD	YTD
COMMUNICATION SVCS	352,61	2,12%	9,63%	3,59%
CONSUMER DISCRETIONARY	1 717,38	1,71%	9,44%	-5,96%
CONSUMER STAPLES	917,35	1,80%	1,81%	8,45%
ENERGY	619,34	-0,43%	0,99%	-3,88%
FINANCIALS	845,93	1,80%	4,42%	5,81%
HEALTH CARE	1 543,45	1,88%	-5,55%	-3,10%
INDUSTRIALS	1 207,31	1,49%	8,83%	8,83%
INFORMATION TECHNOLOGY	4 524,41	2,36%	10,89%	-1,57%
MATERIALS	544,68	0,90%	3,03%	3,62%
REAL ESTATE	261,57	2,74%	0,99%	3,35%
UTILITIES	414,48	1,15%	3,83%	9,07%

EUROPE: Sectors	Level	5D	MTD	YTD
BASIC MATERIALS	2 729,85	0,17%	4,60%	2,08%
CONSUMER GOODS	4 099,92	0,08%	1,89%	11,53%
CONSUMER SERVICES	1 473,23	0,36%	4,18%	-2,49%
FINANCIALS	1 318,01	0,62%	6,15%	25,07%
HEALTH CARE	3 515,15	1,13%	0,45%	-1,22%
INDUSTRIALS	4 730,66	1,15%	8,34%	15,44%
OIL & GAS	1 438,75	1,60%	5,83%	4,44%
TECHNOLOGY	1 995,66	1,09%	7,76%	4,41%
TELECOMS	700,04	-0,69%	3,49%	16,90%
UTILITIES	2 337,79	-0,37%	2,48%	20,48%

Market overview as of 31st May 2025

Fixed Income	Level	5D	MTD	YTD
Pan-Euro 3-5 yrs IG	217,17	0,13%	0,25%	1,97%
Euro Aggregate	246,03	0,52%	0,17%	0,93%
Pan-Euro HY Hedged Eur	463,52	0,52%	1,32%	2,21%
Global Inflation hedged EUR	234,96	0,72%	-0,77%	0,83%
US Corp High Yield	2 264,90	0,74%	1,68%	2,68%
EM USD Aggregate TR	1 260,87	0,62%	0,67%	2,97%
EM Aggregate TR Local Ccy	156,54	-0,07%	1,08%	5,21%
EUR Banks CoCo Tier 1	164,66	0,71%	1,86%	2,96%
EU GOVT HEDGED EUR	215,03	0,62%	-0,19%	0,67%
Global Aggregate Hedged EUR	2 554,99	0,63%	-0,51%	1,06%

Commodities	Level	5D	MTD	YTD
GOLD	3 289,25	-2,03%	0,02%	25,33%
COPPER	467,75	-2,68%	2,58%	16,17%
OIL WTI	60,79	-1,20%	4,43%	-15,24%
OIL BRENT	63,90	-1,36%	1,24%	-14,39%

Currencies	Rate	5D	MTD	YTD
EURUSD	1,1347	-0,13%	0,17%	9,59%
GBPUSD	1,3459	-0,58%	0,98%	7,53%
USDJPY	144,0200	1,02%	0,66%	-8,38%
USDCHF	0,8224	0,16%	-0,41%	-9,37%
AUDUSD	0,6431	-0,88%	0,45%	3,93%
EURCHF	0,9333	0,02%	-0,29%	-0,73%
USDCNY	7,1989	0,25%	-1,00%	-1,38%
USDKRW	1 471,95	1,64%	-2,93%	
USDBRL	6,1774	1,76%	3,45%	-7,55%
USDTRY	39,1980	0,57%	1,83%	10,87%
BITCOIN	104 597,81	-3,38%	10,59%	11,61%

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