

Quarterly Insights Q2 2025



Tariffs, Tensions, and Turnarounds :

Q2 2025 Market Recap



The second quarter of 2025 began under a cloud of uncertainty, with global markets grappling with the impact of U.S. trade policy, geopolitical tensions, and shifting inflation dynamics. The beginning of the quarter was marked by sharp volatility following aggressive tariff announcements by the Trump administration, while towards the end of the quarter the market saw a broad-based recovery in risk assets as trade rhetoric softened and sentiment improved. Geopolitical risks in the Middle East intensified after Iran and Israel launched attacks on each other.

In the US, although tariffs are expected to weigh on economic growth, a recession remains unlikely. Supportive factors such as lower oil prices, the extension of tax cuts, and a business-friendly regulatory landscape should help offset the drag.

While the disinflationary trend may temporarily stall as tariffs take effect, we continue to expect inflation to gradually ease over the coming quarters.

In Europe, moderating inflation is likely to keep the ECB on a path of further rate cuts. Increased infrastructure investment in Germany and rising EU-wide defense spending should support sentiment and lay the groundwork for medium-term growth, despite ongoing short-term challenges.

In China, growth may slow under the pressure of heightened US tariffs. However, we anticipate a more forceful domestic stimulus to boost consumption and ease supply-side constraints.

From Correction to Recovery : Market Stages Dramatic Rebound Amid Policy Risks and Tech Resurgence

Markets experienced a sharp selloff in March and early April, triggered by President Trump's announcement of sweeping tariff measures dubbed the "Liberation Day" tariffs. At its worst point on April 8, the S&P 500 was down 18.9% from its February peak, wiping out nearly \$10 trillion in market value. The subsequent walk-back of tariff threats helped catalyze a recovery, with the index gaining over 6% in May, its best May performance since 1990.

Amid the broader rebound, technology and AI-related stocks have regained leadership. The S&P 500 and Nasdaq closed at record highs on Monday, wrapping up their strongest quarter in over a year. Investor sentiment improved on the back of progress in trade negotiations and growing expectations of potential rate cuts, helping to ease market uncertainty.

Both indices posted double-digit gains for the quarter: the S&P 500 rose by 10.94%, the Nasdaq surged 17.86%, while the Dow Jones advanced 5.46%. The Russell 2000, which tracks small-cap stocks, also delivered a solid performance, climbing 8.50% over the period.

Despite this strong quarterly rebound, all three major U.S. indexes recorded their weakest first-half performance since 2022. Ongoing concerns over trade policy weighed on investor confidence for much of the year, with tensions escalating in early April when President Donald Trump announced a sweeping set of tariffs on April 2.

While some analysts have raised concerns about potential overheating in tech, others view the recent moves as a return to leadership in a highly concentrated US equity market. The dominance of large-cap tech has once again proven critical to the broader index's performance.

Volatility in Sovereigns, Rotation into Credit

April saw a sharp rise in bond market volatility, driven by the confidence shock from tariff announcements. The US 10-year Treasury yield hit 4.6% before retracing to 4.2% as fears eased. European sovereign bonds were more stable, supported by a 25bps ECB rate cut and rising expectations of further easing. The Bank of England also looked set to cut rates, as soft inflation and weak activity data persisted.

In May, sovereign bonds came under renewed pressure as fiscal concerns resurfaced, following Moody's downgrade of the US sovereign rating and weak demand in long-dated Treasury auctions. The Bloomberg Global Aggregate Index fell 0.4%. Sovereign yields rose across developed markets, with US, UK, and Japan underperforming due to weaker fiscal dynamics.

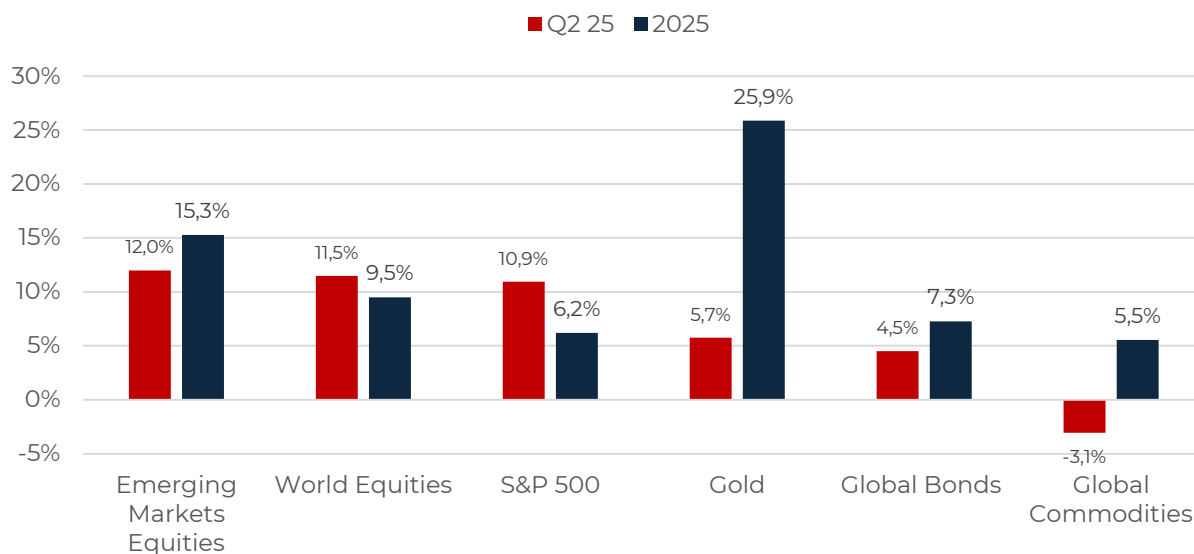
However, credit markets rebounded, particularly high yield bonds, as risk appetite improved. US and European high yield spreads tightened significantly by around 130bps since early April, highlighting growing investor confidence despite lingering inflation and fiscal risks.

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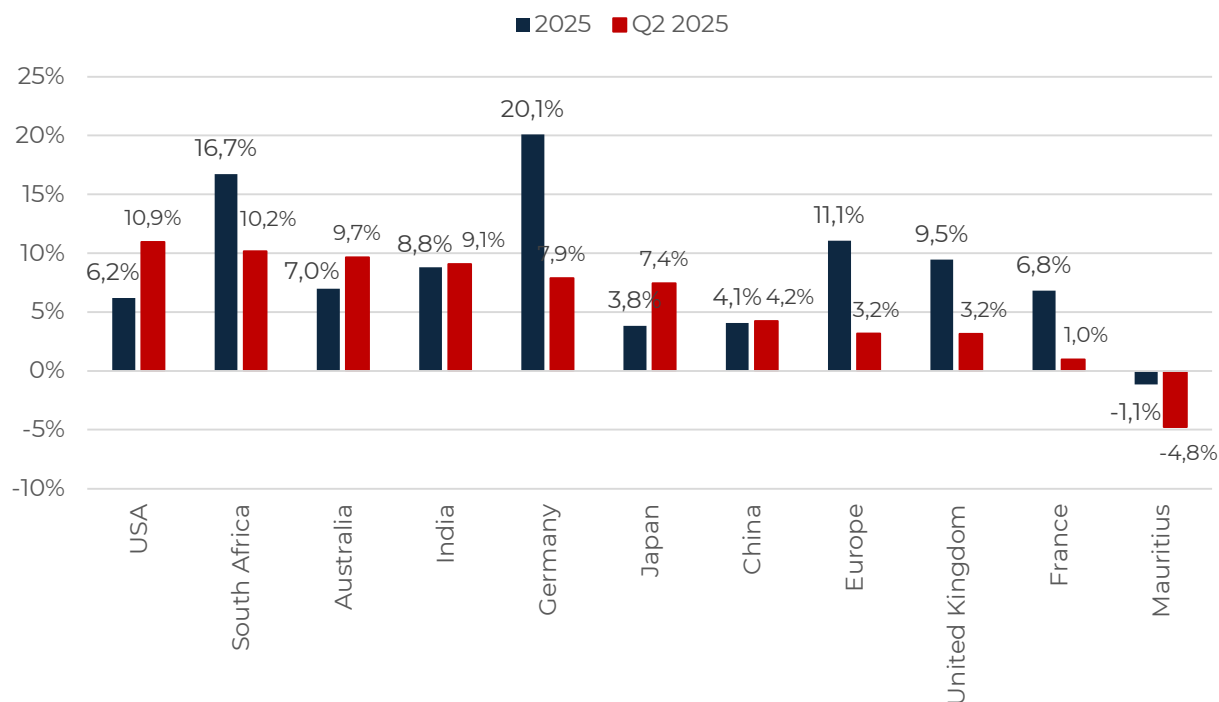
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Asset Class Performance



Source : Bloomberg, Indices, Ananta Asset Management. Data as of 30 June 2025. Performance is reported in total return terms in USD.

Country performance



Source : Bloomberg, Country Indices, Ananta Asset Management. Data as of 30 June 2025. Performance is reported in local currency total return terms.

Dollar Weakness Continues Amid Policy Uncertainty and Slower Growth

The US dollar has faced substantial headwinds in the first half of 2025, declining nearly 10% year-to-date and reaching its lowest level since 2022, as measured by the US Dollar Index. This marks one of the dollar's worst performances in decades, driven by a combination of policy-related uncertainty and a downward revision of US growth expectations.

The U.S. Dollar Index has returned to levels last seen in March 2022



Source : Bloomberg, Ananta Asset Management. Data range : 31 December 2021 to 30 June 2025.

Contrary to initial market expectations at the start of President Donald Trump's second term, the administration's tariff policies and inconsistent communication around economic strategy have injected significant volatility into markets. While such tariffs were initially perceived as potentially supportive for the dollar by limiting imports, their erratic implementation has instead eroded investor confidence.

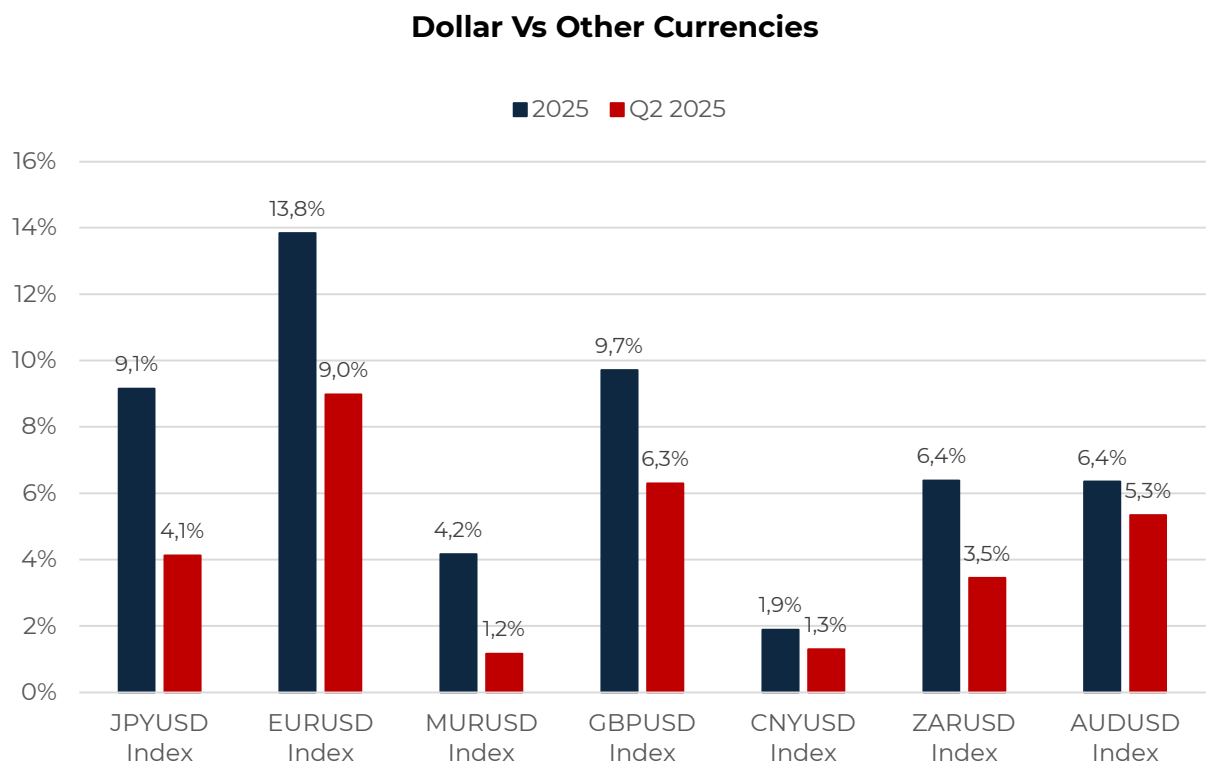
Economists highlight that investors are increasingly questioning the US dollar's status as a safe-haven currency, particularly as the US fiscal deficit and debt load grow. Concerns over the sustainability of US debt have prompted foreign investors to demand higher yields on Treasuries, while the weaker dollar reduces returns when these assets are converted back into local currencies.

In contrast, the euro has benefited from relative policy stability in the Eurozone and improving capital inflows. The EUR/USD has appreciated by 13.8% year-to-date, reaching its strongest level in over four years, supported by renewed investor appetite for non-US assets.

In addition, a Bank of America survey of global fund managers in June showed the lowest allocation to the US dollar since 2005, underscoring the rotation into international assets.

While the dollar remains the world’s most liquid and widely used currency, there are growing signs that its dominance is slowly being challenged. This dynamic has encouraged many investors to revisit global diversification, particularly through international equities and mutual funds, which have shown outperformance in this weaker dollar environment.

Overall, the Q2 currency landscape underscores a key theme: the weakening US dollar is both a reflection of domestic policy uncertainty and a catalyst for renewed international investment flows.



Source : Bloomberg, Currencies, Ananta Asset Management. Data as of 30 June 2025.

Trump’s plan aims to grow the economy faster than the debt by devaluing the dollar to reduce the deficit, while also relying on tariffs. In May 2025, tariff revenues reached three times the average monthly amount collected in 2024, highlighting the significant impact of recent tariff policies.

US dollar index (DXY) since 1967

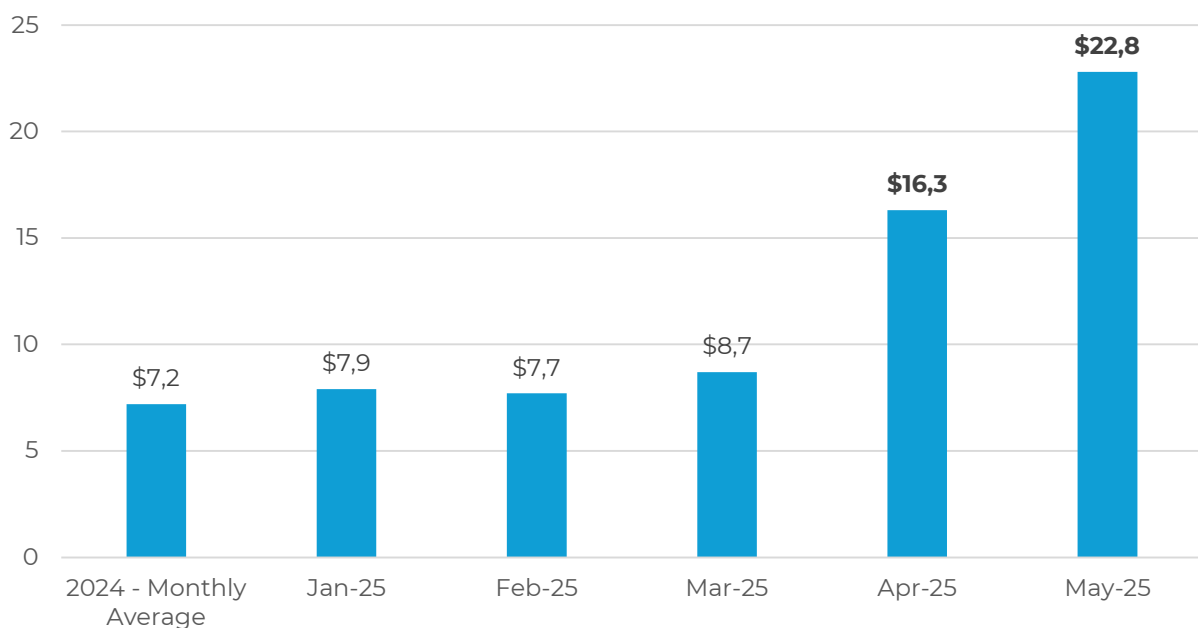


Source : BofA Global Research

Revenues from Tariffs Spiked to \$23 Billion in May

U.S. customs duties surged to a record high in May, contributing to a reduced budget deficit for the month. However, uncertainty lingers over the sustainability of these revenues, as the Trump administration continues trade negotiations and faces legal challenges to its tariffs.

According to the Treasury Department's monthly budget report, customs duties generated USD 23 billion in May, an increase of USD 17 billion.



Source: Bloomberg, Treasury Department. Data as of 30 May 2025

Global Rotation: Value Outshines Growth

As we move through the second quarter of 2025, equity markets exhibit significant divergences in both valuation and performance. Europe, China, and Africa emerge as particularly attractive regions, combining strong year-to-date returns with compelling valuations. European equities have benefited from easing trade tensions and renewed fiscal support, with U.S. investors reallocating capital to the region, contributing to its outperformance. Africa has posted the strongest returns globally (+29.2%), underpinned by improving fundamentals and some of the highest dividend yields in the world. China, despite ongoing structural issues, has rebounded strongly (+17.3%) on the back of targeted stimulus measures and a renewed focus on domestic demand.

In contrast, U.S. and Indian equity markets continue to trade at elevated valuations. The U.S. has the highest price-to-earnings (26.1x) and price-to-book (5.0x) multiples among major regions, alongside a low dividend yield of 1.31%. Although U.S. equities have lagged this year (+6.13%), a sentiment shift could occur if AI-driven productivity gains begin to materialize, potentially validating current valuation levels. India presents a similar premium (P/E of 26.5x), but its case is supported by robust structural growth and demographic advantages. Despite modest year-to-date returns (+6.0%), the long-term outlook remains compelling.

Style-wise, World Value has outperformed World Growth (+10.89% vs. +9.26%) while offering cheaper valuations (P/E of 15.7x vs. 31.5x) and significantly better yield (2.99% vs. 0.83%). This supports the ongoing rotation away from expensive growth stocks and into value-oriented strategies. Regions combining high yields and macroeconomic stability—particularly Europe and select emerging markets—could continue attracting flows as interest rate expectations move lower.

Region / Style	Price to Book Ratio	Price to Earnings Ratio	Dividend Yield	2025 USD Performance
World	3.19	21.25	1.86%	9.47%
USA	5.02	26.14	1.31%	6.13%
Europe	2.16	16.10	3.11%	23.05%
Japan	1.51	15.96	2.32%	11.73%
Emerging Markets	1.81	14.42	2.65%	15.27%
Emerging Markets ex China	1.98	15.18	2.81%	14.53%
China	1.50	12.86	2.26%	17.33%
India	3.86	26.46	1.16%	6.00%
Africa	1.98	13.96	3.09%	29.20%
Africa ex-SA	2.04	10.09	3.81%	28.43%
World Large Cap	3.50	21.43	1.80%	9.78%
World Small Cap	1.69	22.47	2.26%	7.90%
World Growth	6.83	31.47	0.83%	9.26%
World Value	2.02	15.70	2.99%	10.89%
World Quality	7.67	23.32	1.51%	6.05%

Source : MSCI, Ananta Asset Management. Fundamental metrics data as of 30 May 2025. Performance data as of 30 June 2025.

Central Banks Update

In 2025, major central banks are following divergent paths amid contrasting trends in inflation and growth. While the European Central Bank (ECB) and the Swiss National Bank (SNB) have initiated monetary easing cycles, the U.S. Federal Reserve (Fed) remains cautious and has kept its rates unchanged.

Since the beginning of the year, the ECB has cut rates three times, including twice this quarter. The deposit rate fell from 2.50% to 2.00% between February and June. This decision is based on a confirmed decline in inflation, which dropped to 1.9% in May 2025 from 2.2% in April, falling below the official 2% target. At the same time, growth remains weak in the eurozone (+0.3% in Q1 according to Eurostat, with no improvement expected in Q2), prompting the ECB to stimulate activity by lowering borrowing costs.

Switzerland has taken an even bolder stance. On June 19th, the SNB cut its policy rate to 0%, after gradually lowering it since 2024. This move reflects negative inflation (deflation) at -0.1% in May. It is also driven by upward pressure on the Swiss franc, which has appreciated more than 10% against the USD since the start of the year. This deflation and strong currency environment threatened the competitiveness of Swiss exports, leading the SNB to act proactively. Some analysts do not rule out a return to negative rates if the situation does not stabilize.

In contrast, the Fed is maintaining its key rates between 4.25% and 4.50%. Jerome Powell remains cautious, awaiting tangible evidence of a sustained slowdown in inflation. In May, overall inflation stood at 2.4% year-on-year, but core inflation (excluding energy and food) remains elevated at 2.8%. On growth, U.S. GDP contracted by 0.5% in Q1, but a moderate rebound is expected in Q2. This backdrop of sluggish growth but persistent inflation justifies, according to the Fed, a wait-and-see approach.

Markets are anticipating the first U.S. rate cut in September 2025, with only a 20–25% probability of a move as early as July. Current forecasts suggest two to three rate cuts by the end of the year.

Rising Geopolitical Tensions Fuel Volatility in the Oil Market

The second quarter of 2025 unfolded amid rising international tensions, marked by two brief conflicts in strategic regions: first between India and Pakistan, then between Israel and Iran. Although these clashes were limited in duration, their impact on markets, especially oil, was immediate.

The first episode occurred in April, when violent exchanges broke out between India and Pakistan in the Kashmir region following a deadly attack.

However, it was the second conflict in June that caused a far more pronounced shock to international markets. On June 11th, Israel launched a targeted strike against Iranian nuclear infrastructure, prompting a military response from Tehran. The missile exchanges were brief, but Iran's threat to close the Strait of Hormuz through which nearly 20% of the world's oil passes, instantly reigniting global energy security concerns.

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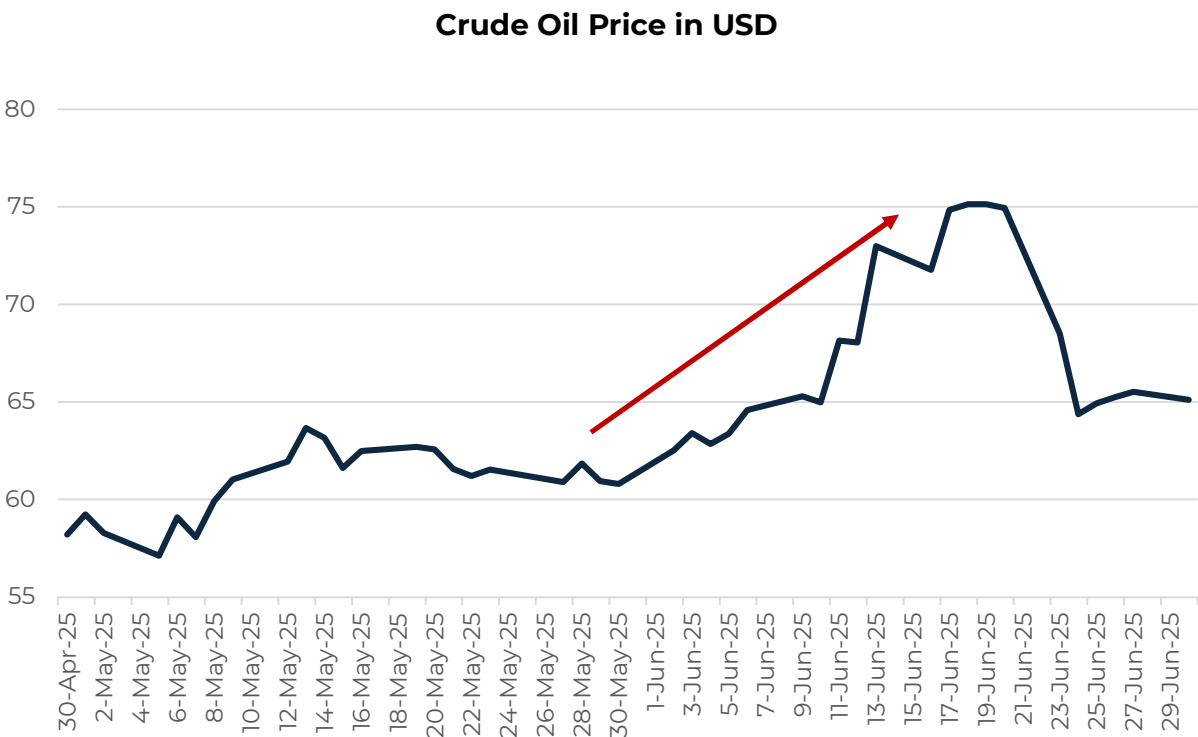
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As a direct consequence of this tension, Brent crude prices surged nearly 7% within 48 hours, reaching a peak of around \$77 per barrel in mid-June. The market priced in a risk premium linked to a possible disruption of global supply, although the threat of an actual closure of Hormuz did not materialize. WTI prices experienced a similar, albeit slightly more muted, impact.

This price spike proved temporary. Following confirmation of a ceasefire around June 23rd and reaffirmation by major powers of continued free navigation in the area, Brent prices gradually retreated, ending the month around \$66 to \$67 per barrel—levels close to those seen in April.

Other factors also influenced this evolution. Fundamentally, OPEC+, led by Saudi Arabia, announced an increase in production, which put downward pressure on prices. Meanwhile, Chinese demand showed a slight decline, weighing on expectations. In the U.S., elevated oil inventories further supported the easing trend.

Thus, despite a tense geopolitical sequence, the shock to oil prices remained temporary. Markets demonstrated resilience, benefiting from a balance between short-term risks and medium-term fundamentals. This quarter nonetheless serves as a reminder that in a fractured world, a single incident in a key region can destabilize entire value chains and that energy stability remains as much a matter of diplomacy as of economics.

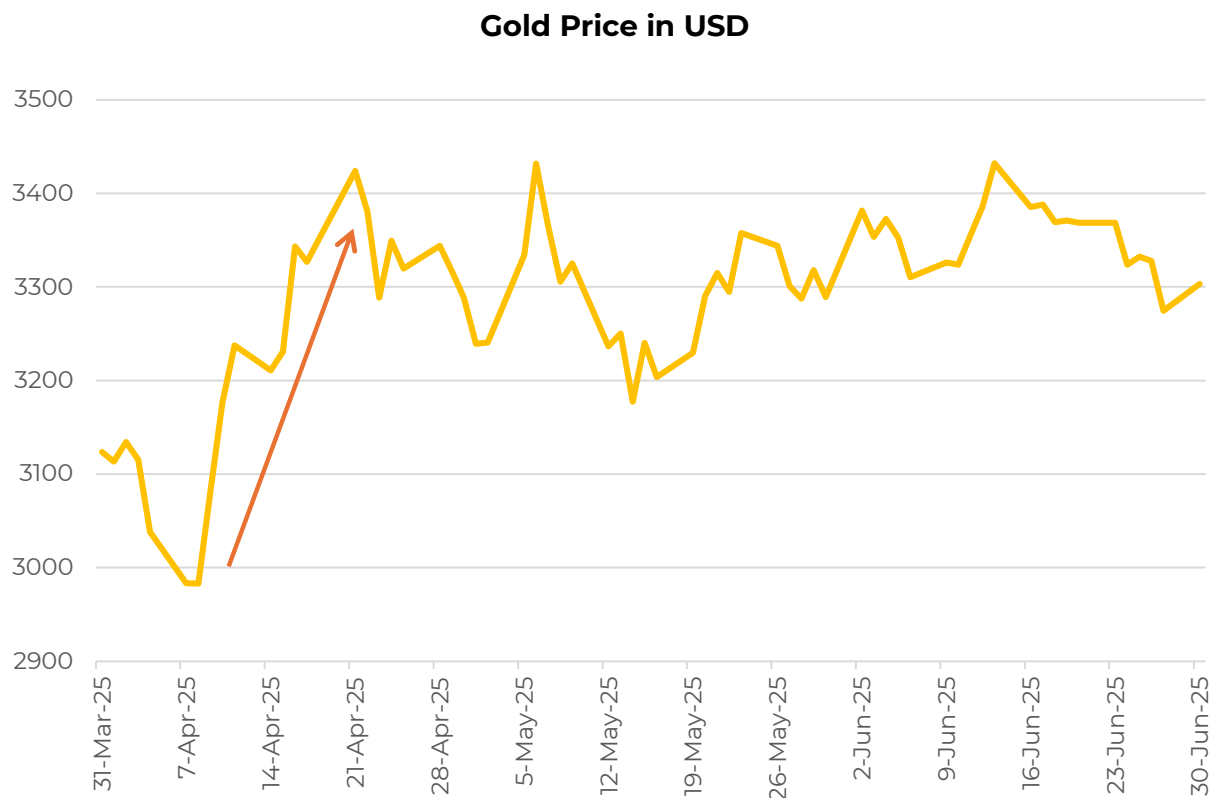


Source : Bloomberg, Ananta Asset Management. Data range : 30 April 2025 to 30 June 2025.

In this climate of heightened tension and market volatility, gold once again confirmed its role as a preferred safe-haven asset. The yellow metal experienced an eventful quarter, with monthly performance varying, but an overall positive result. April stood out as the strongest month which masked a sharp 15% surge between April 7th and April 21st while the monthly gain was 5.3%.

May and June were more stable, with gold trading largely flat despite renewed instability in the Middle East. Ongoing uncertainty was enough to keep institutional investors holding long positions.

Over the quarter, gold posted a moderate yet solid gain, and since the start of the year, it has appreciated by 25,9%. This upward trend has been driven by a combination of factors: persistent dollar weakness, large-scale purchases by central banks—particularly China, Turkey, and India and strong demand from gold-focused ETFs, which recorded positive net inflows the quarter.



Source : Bloomberg, Ananta Asset Management. Data range : 31 March 2025 to 30 June 2025.

Conclusion

The recent ceasefire between Israel and Iran helped calm markets, diverting attention back to more structural concerns: tariffs, inflation risks, US fiscal deficits, and the implications of Trump's proposed "One Big Beautiful Bill". While tariff-induced inflation remains a real concern, the market appears to be discounting longer-term risks in favor of near-term relief.

The aggressive use of tariffs as a policy tool has introduced a new inflationary layer, with the average effective U.S. tariff rate now near its highest level since the 1930s. This may weigh on growth and squeeze corporate profit margins in the second half of the year. Meanwhile, the weaker dollar is reshaping capital flows, prompting renewed interest in international assets and value-oriented strategies.

Despite the noisy macro backdrop, markets showed resilience in Q2, with a broad rotation toward value, improved sentiment in emerging markets, and renewed leadership in AI-linked technology stocks.

Europe benefits from easing inflation, supportive fiscal policies, and ECB rate cuts, making it a favoured destination for global investors. Meanwhile, China has strongly rebounded thanks to ongoing targeted stimulus measures and a renewed focus on boosting domestic demand, a trend that could continue supporting further market gains. Valuation gaps remain compelling outside the U.S., with European and African equity markets benefiting from macroeconomic tailwinds and sustained capital inflows. In the U.S., we suggest staying invested in high-quality names, particularly in the AI and infrastructure sectors, while remaining cautious given stretched valuations.

On the fixed income side, we maintain a constructive outlook for 2025, supported by attractive yields and selective opportunities in credit markets. Our preference remains for investment-grade bonds and high-yield issuers with strong fundamentals. Although policy uncertainty from the U.S. administration may continue to generate volatility, it also presents tactical entry points to reinforce core allocations.

We continue to view gold as a strategic hedge in diversified portfolios, with ongoing dollar weakness and robust central bank demand providing support amid elevated geopolitical and fiscal risks. In commodities, we advocate a selective and opportunistic approach particularly in oil and industrial metals, where short-term supply disruptions and demand shifts may offer inflation-hedging and diversification benefits.

Index Returns

Region	Index	2025	H1 2025
Equities			
Global	World Equities	9.47%	11.47%
	World Growth	8.55%	17.67%
	World Value	10.45%	5.38%
USA	S&P 500	6.20%	10.94%
	DOW JONES	4.55%	5.46%
Europe	EUROSTOXX 50	11.07%	3.16%
Japan	TOPIX	3.82%	7.44%
United Kingdom	FTSE 100	9.45%	3.15%
Germany	DAX	20.09%	7.88%
France	CAC 40	6.81%	0.96%
Australia	ASX 200	6.97%	9.66%
India	NIFTY	8.79%	9.07%
China	SHANGHAI COMP	4.07%	4.24%
South Africa	JSE AFRICA ALSI	16.73%	10.17%
Mauritius	SEMDEX	-1.15%	-4.77%
Commodities			
Global	Commodity Index	3.30%	-4.12%
	Crude Oil WTI	-9.22%	-8.91%
	Brent Oil	-9.42%	-9.54%
	Gold (ounce)	25.86%	5.75%
Currencies			
Eurozone	EURUSD	13.84%	8.98%
United Kingdom	GBPUSD	9.72%	6.30%
Japan	JPYUSD	9.15%	4.12%
Australia	AUDUSD	6.35%	5.35%
South Africa	ZARUSD	6.39%	3.45%
China	CNYUSD	1.89%	1.30%
Mauritius	MURUSD	4.17%	1.17%
Bonds			
Global	Bloomberg Global-Agg	7.27%	4.52%

Source: Bloomberg. Total returns of indices are reported in USD total return terms. Global regions are reported in total return in local currency terms. Data as of 30 June 2025.



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