REYL
OVERSEAS
Intesa Sanpaolo Group

STRATEGY OUTLOOK

JUNE 2025

Key takeaways-

- V shaped recovery in stocks.
- Reagan-omics is back.

Whether equity markets simply got used to the "noise" emanating from the wheeling and dealing of the current Administration or, behind the scenes, liquidity was pushed into the market we will probably never know. Irrespective the equity markets rallied back strongly to create **a V shaped move** (see chart) from the highs in February to the lows in April and back up.

Another reason away from the "tariff games" for the V shape is the consistent messaging from US Treasury Secretary Bessent. Bessent is not a career politician or Government official having his time in the sun, but rather a Wall Street veteran. **His stated aim is simply to grow the economy to stabilise the fiscal situation**. The economy however needs to grow at a rate above 6.6% yoy just to keep the level of debt constant. The only times US nominal GDP growth has grown at these levels was 1965-1985 (high inflation), the Dot-Com bubble, the Housing bubble (mid 2000) and the everything bubble (post COVID).

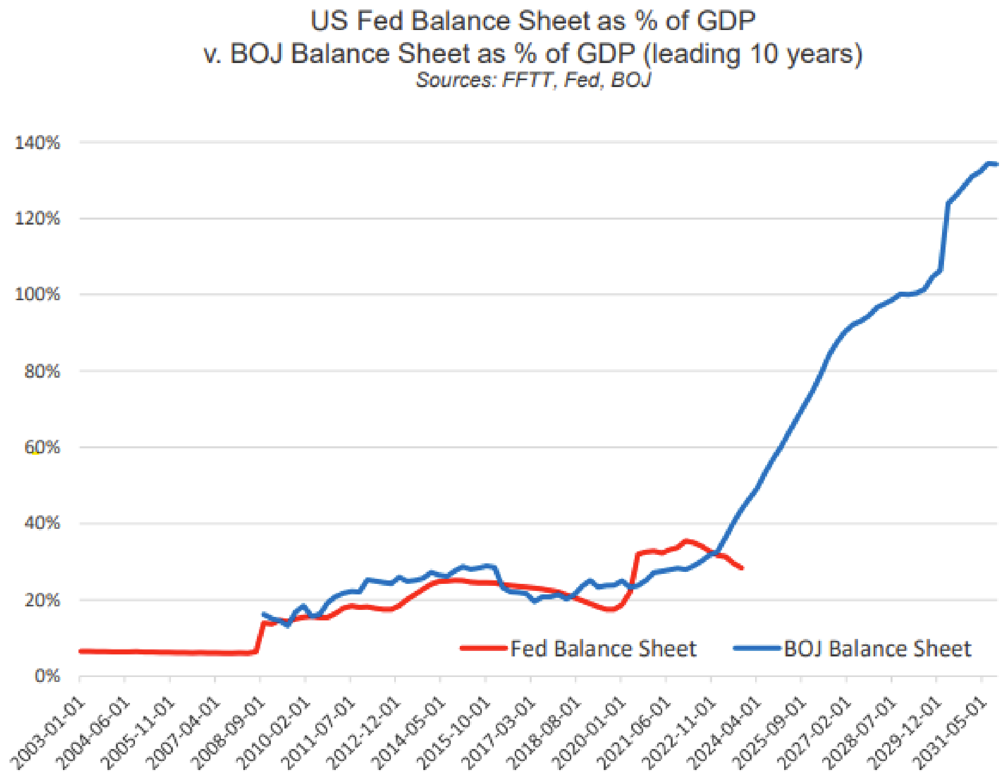
However, buyers of debt are required. One new buyer of US debt may be stablecoins (the new Administration are pushing digital currencies) or the possibility of privatising Freddie and Fannie, forcing them to buy mortgage-backed securities. I think we can now assume DOGE (The Department of Government Efficiency) has failed as it seems to have disappeared from Administration press conferences. DOGE sought to reduce government waste and hence reduce debt. Mission Impossible?

So, if this game plan is to be believed we should expect to see more and more deregulation, tax cuts, a reduction in tariff news and lower interest rates. This strategy is somewhat like the Reaganomics playbook. The issue is getting interest rates down. We should also expect continued loss of Dollar purchasing power albeit this is not unique to the Dollar. **Longer term Gold, Bitcoin and select stocks should continue to outperform.**

The second graphic highlights the Japanese Debt/GDP versus the US Debt/GDP. If this is used as a playbook by the Administration, it backs up the recommended assets highlighted above.

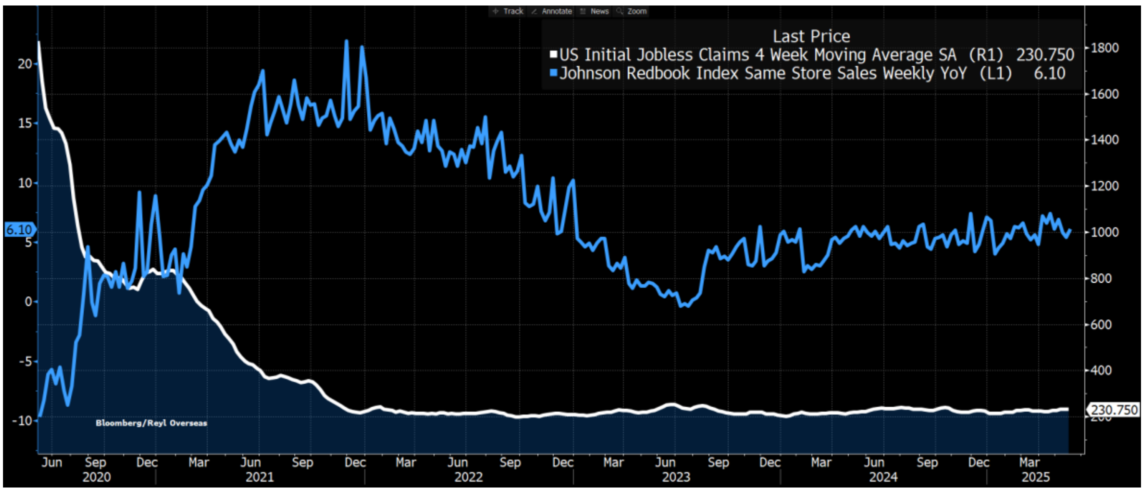
One extreme worth being aware of is what happened in WW2. The US capped the yield on its debt from 1942 to 1951 as it ramped up spending for the war. In that period the Fed's balance sheet rose 8-10x. Is war-like spending likely – probably not but at the most basic level demand and supply laws exist. You can't keep increasing supply and for price to remain constant.

Japanese bond yields continue to rise (prices fall) due to excess supply and a lack of demand. Inflation rates also in Japan are above the yield available on the debt making bonds a poor investment in real terms. The holders of all these bonds – Japanese insurance (13.4% owners), pension funds (8.9%) and the Government (52%) will be witnessing mounting losses.



We remain sceptical of the risk of an outright recession, however, that solely depends on Trump's tactics which must continue (in some form) for credibility's sake. He was elected on an "America First" mandate and so the current direction is well in line with this mandate. Ultimately, he has to the midterms in less than 2 years' time.

The third graph highlights some high frequency economic data. Jobless claims (white) have not risen, nor has there been any change in retail spending (blue) by consumers. **Indeed, overall US economic data has been improving**. In the recent earnings calls management however remained wary and many are bringing in performance reviews, which you could argue, are the first step for allowing layoffs to occur.



In Europe the war against cash continues. The EU are now proposing a "wealth register" to "help with financial transparency". Hmmm. Spain also announced that if you wish to withdraw more than 3k in cash you must notify the tax agency at least 24 hours in advance. Failure may see fines of up to 150k. These are signs that being in control of your assets and in favourable jurisdictions is increasingly important economically and politically.

In summary we remain close to neutral with cash available. The doom and gloom both from a tariff and recessionary point of view look overdone. The market has however bounced in a V shape and needs to break all-time highs to progress further so there is natural resistance.

We halved our position in Gold last month looking for some weakness, which as of yet, hasn't occurred. The price hasn't advanced but looks to be consolidating which may be very positive. We would use any weakness as a buying opportunity as the long-term trend is clear. If debt levels are indeed increased, then Gold should perform well. Additionally, we added more exposure into our Alternatives bucket with additional Bitcoin and a long/short equity fund being added.   We remain in effective wait-and-see mode with cash available if the opportunity arises, but the bulk of holdings fully invested.

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