



Market Outlook | Top-Down Approach

June 2025



MARKET CONTEXT

Summary

GLOBAL OUTLOOK	Macroeconomic environment ↑	Market valuation →	Investor sentiment ↓
December 31, 2024	Neutral	---	--
March 31, 2025	--	---	+
June 30, 2025	-	--	-

REGIONAL OUTLOOK (in relative terms)	Macroeconomic environment	Market valuation	Investor sentiment	Regional valuation
North America	-	---	---	-----
Europe	+	+	+	+++
Asia-Pacific	Neutral	+	Neutral	+
Emerging markets	+	+	++	++++

Source: DGAM as at June 30, 2025. The first table summarizes DGAM's subjective assessment of the macroeconomic environment, market valuation and investor sentiment with respect to the equity markets in general as at the dates indicated (the assessment can range from triple-negative to triple-positive). The second table presents an assessment of each region in relative terms.

INTRODUCTION

Geographic allocation as the world shifts back to multipolarity

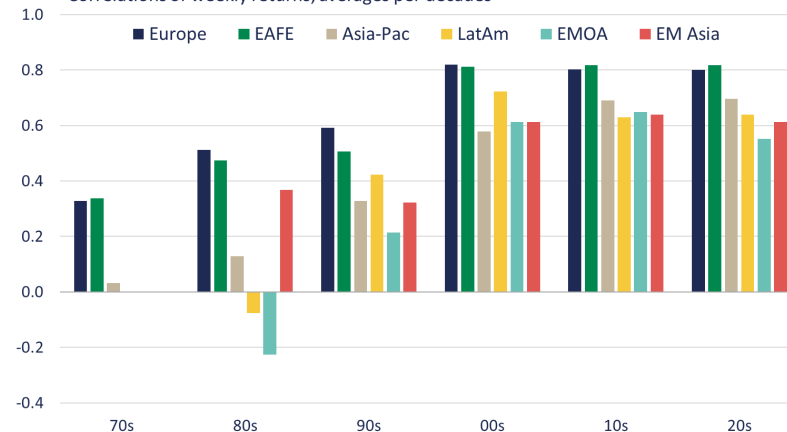
Since the end of the Cold War, the world has essentially developed into a unipolar system, with the United States wielding unparalleled political, military, economic and technological power. The establishment of the European Union in the 1990s and the rise of China in the 2000s have been gradually reshaping this balance of power. Moreover, emerging regional powers, such as India, Brazil and Saudi Arabia, have also increased their influence. Even though multipolarity had been in the cards for some time, the Trump administration's isolationism and trade war have accelerated the process, at least from the economic standpoint.

This regime shift is not without consequences. A multipolar world is more fragmented and less predictable. New dynamics are taking hold; major powers are competing for influence, as other countries move closer and strengthen their trade relations. In defiance of the Trump administration and its strategic advisers, who seem to think American exceptionalism is an immutable truth, a multipolar world can reorganize itself in response to changing political and economic considerations.

Although geographic diversification has not been a significant factor for investors in a unipolar context, the prospect of this new global order makes overexposure to U.S. assets increasingly hard to justify.

Regional Equity Markets Correlation with the S&P 500

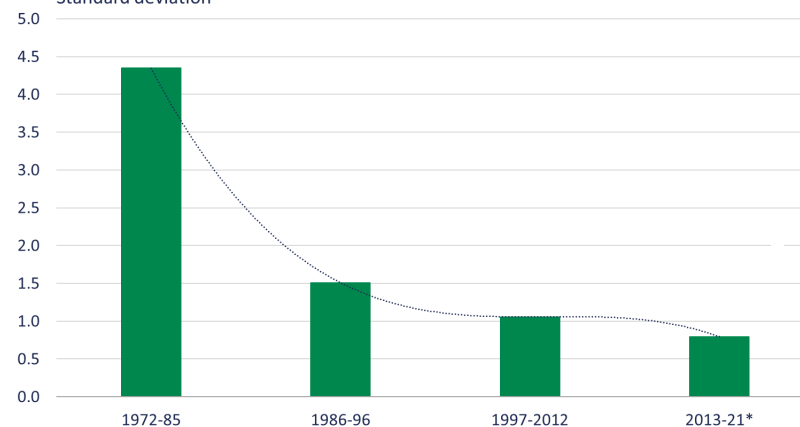
Correlations of weekly returns, averages per decades



Sources: DGAM, LSEG, MSCI, May 2025

Inflation Rates Dispersion Between G7 Countries

Standard deviation



Sources: DGAM, LSEG, May 2025

*Before the impact of the pandemic

INTRODUCTION

It's time to rethink geographic diversification

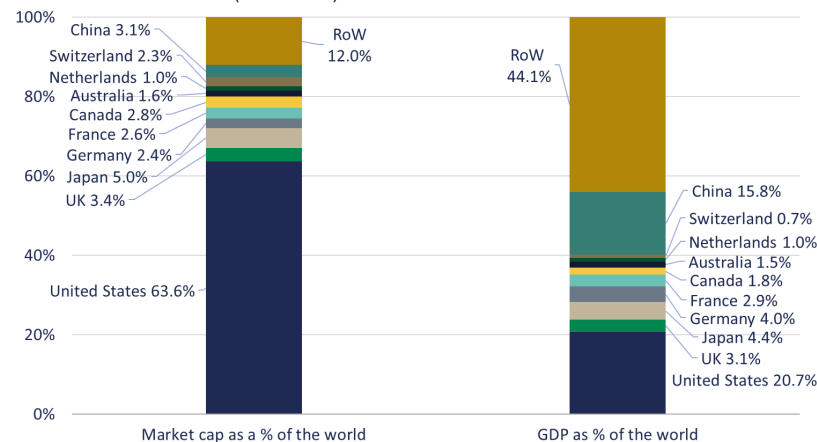
The United States' share of the world economy remains large, at about 20%, but is declining. In contrast, the weight of U.S. equities in global market capitalization, at more than 63%, has risen significantly over the years, well beyond what their fundamentals and growth prospects justify.

We think a rebalancing is in the offing. The relatively attractive valuations of equity markets outside the United States and investors' limited positioning in them also support this thesis. Nearly 80% of the world's economic activity takes place outside the United States. The markets with the fastest growing middle class, the greatest infrastructure needs and the most abundant labour force are in Asia. The fact that the countries of Europe, with an economic weight equal to that of the United States, are uniting and rolling up their sleeves to address their many challenges could also drive a promising structural shift over the medium to long term.

In a world that is reverting to multipolarity, we think it's time to scrutinize the received wisdom on diversification and rethink investment policies in terms of geographical positioning, whose boundaries are often dictated by stock and bond benchmark indexes. To benefit in this changing world, we have to look boldly beyond the limits imposed by current benchmarks.

Equity Market Capitalization and GDP by Country

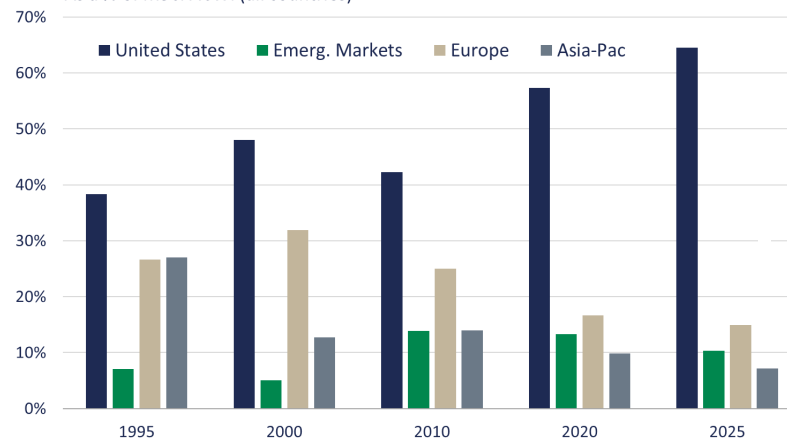
As a % of the world (MSCI ACWI)



Sources: DGAM, LSEG, MSCI, Visual Capitalist, May 2025

Equity Market Capitalization

As a % of MSCI ACWI (all countries)



Sources: DGAM, LSEG, MSCI, May 2025

MACROECONOMIC ENVIRONMENT

The 2025-2026 consensus revises growth forecasts downward once again

In 2019, just before the pandemic, global economic growth was at its weakest since the 2009 financial crisis. The trough reached during the pandemic was followed by a cyclical rebound boosted by stimulus packages, followed by a gradual return to “normal”. Only the United States continued to provide strong support to its economy in 2023 and 2024, despite full employment, above-target inflation and alarming deficits.

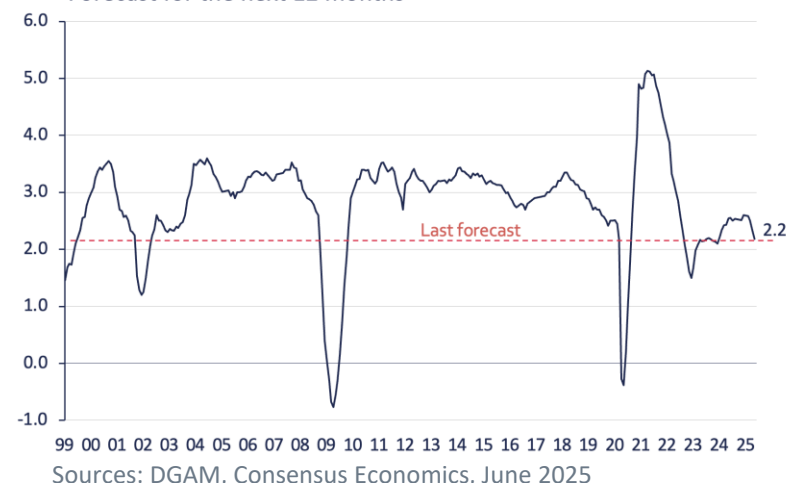
With the disruptions orchestrated by the Trump administration, the return to normalcy was short-lived. Uncertainty leads to restraint and caution on the part of consumers and businesses alike. In this context, forecasters have continued to revise the growth outlook downward in recent months, for the current year and for 2026.

It comes as no surprise that the United States and Canada have seen the largest downward revisions, whereas China and Europe, which are both in fiscal and monetary stimulus mode, are faring much better.

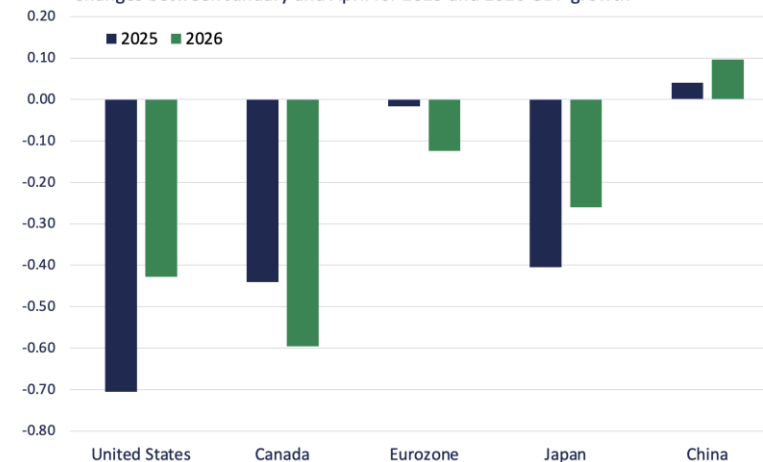
On the inflation front, the consensus is that consumer prices will approach or fall below the central bank targets in Europe, Canada and Japan. That being said, in the United States inflation remains stubbornly above the Federal Reserve’s target.

Forecasters have their work cut out for them this year, with exogenous shocks due to President Trump’s postponements and inflammatory rhetoric coming fast and furious. This erratic behaviour, which is impossible to model, has very real impacts on economic statistics and surveys of the business climate and household confidence. It makes the current economic situation extremely difficult to read.

Evolution of Forecasted Economic Growth - World
Forecast for the next 12 months



Forecasts Revisions to GDP Growth
Changes between January and April for 2025 and 2026 GDP growth



MACROECONOMIC ENVIRONMENT

Monetary policy: expansionary in Europe, restrictive in the United States

Not a week goes by that President Trump doesn't threaten to fire Federal Reserve Chair Jerome Powell. Trump is critical of Powell for refusing to lower interest rates, in contrast to the European Central Bank (ECB) and most other central banks.

In 2024, the sharp decline in inflation allowed most central banks to ease credit conditions. Moreover, this year many are acting pre-emptively to temper the effect of the Trump administration's trade war.

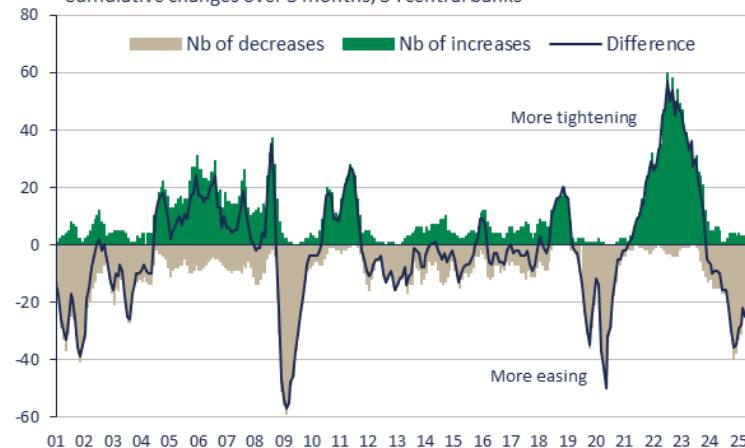
But the Fed has no leeway: Inflation is still above the 2% target and well anchored in the expectations of consumers, businesses and forecasters, especially because of tariffs. The consensus inflation forecast is 3% for 2025 and 2.8% for 2026. In this context, significant easing would raise doubts about the Fed's independence and credibility. But the pressure will be intense, because Trump will no doubt blame the Fed for any slowdown or recession.

As for the ECB, it was able to lower its key rate in the past year from 4% to 2%, or 250 basis points below the U.S. rate. In addition to the unpredictable price of energy, several factors will affect inflation in the euro zone over the next few years. In the short term, Chinese products could flood the European market as a result of U.S. tariffs, lowering the rate of inflation. In the medium term, however, German stimulus could push the rate up. But excess production capacity will have to be eliminated first.

We expect monetary policy to remain much more accommodative and growth-friendly in Europe than in the United States in the coming quarters. The United Kingdom is the exception; inflation remains an issue, with very few rate cuts expected.

Monetary Policy: Changes in Interest Rates

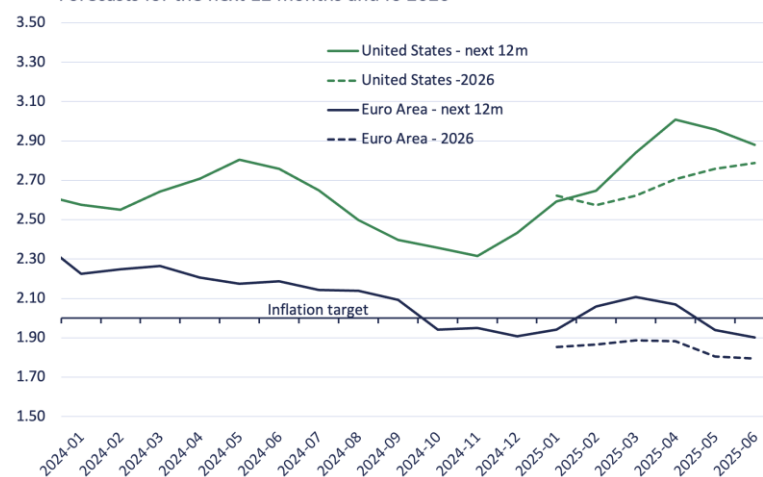
Cumulative changes over 3 months, 34 central banks



Sources: DGAM, LSEG, central banks, June 2025

Evolution of Forecasted Inflation - Euro Area vs. U.S.

Forecasts for the next 12 months and for 2026



Sources: DGAM, LSEG, June 2025

MACROECONOMIC ENVIRONMENT

United States: trade chaos, deficits and rising interest rates

Some observers think the U.S. economy has been quite resilient this year despite the sustained blows inflicted from within. But uncertainty and anxiety are clear from the soft data, namely surveys of consumers and companies. These surveys are, on average, at levels normally seen in recessions. That being said, the so-called hard data (such as employment, sales and production), which measure economic activity more directly, on average held up better in the second quarter. In June, the Atlanta Fed's GDPNow model, which uses such data to estimate growth, suggested that GDP rebounded by 3.5% in the second quarter after declining by 0.5% in the first quarter.

A more nuanced analysis shows that half of the rebound will have come from a fall in imports, which rose sharply in the first quarter as U.S. importers ramped up orders in anticipation of new tariffs.

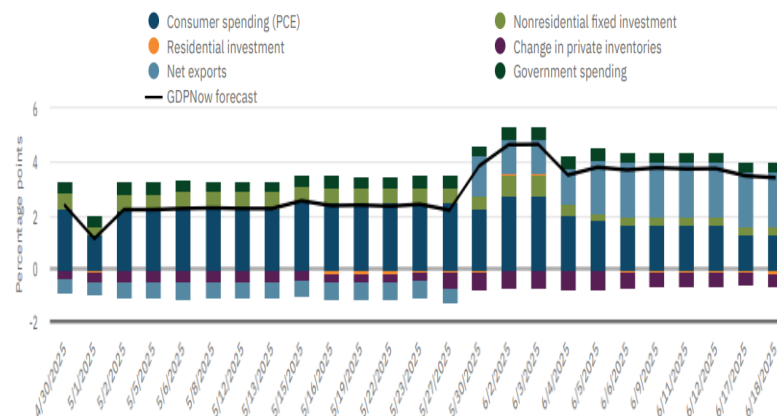
It is precisely this kind of disruption that complicates a reading of the current situation. And it's not over. A recent study found that the impact of economic shocks, including those stemming from trade policies, can take up to a year to make themselves felt.

Before all these distortions, the economic environment was already becoming more complicated for consumers, for reasons that include rising debt burdens and precarious employment. Household debt service still isn't at a level indicative of a recession, but it is far from a comfortable level. And the tax relief in the One Big Beautiful Bill won't change the situation because it will make the poorest one-third of consumers even poorer according to the Congressional Budget Office. In addition, the increase in the deficit could result in higher interest rates and higher savings owing to the fraying of the social safety net.

In the coming quarters, we should see who has the final say on economic policy. Will it be investors or the Trump administration? After all the uncertainty, randomly fluctuating tariffs and inflammatory rhetoric, investors have become skeptical about how credibly public finances are being managed. The bond market reacted to the One Big Beautiful Bill last May by driving 30-year bond yields above 5%.

Contribution of GDPNow Components

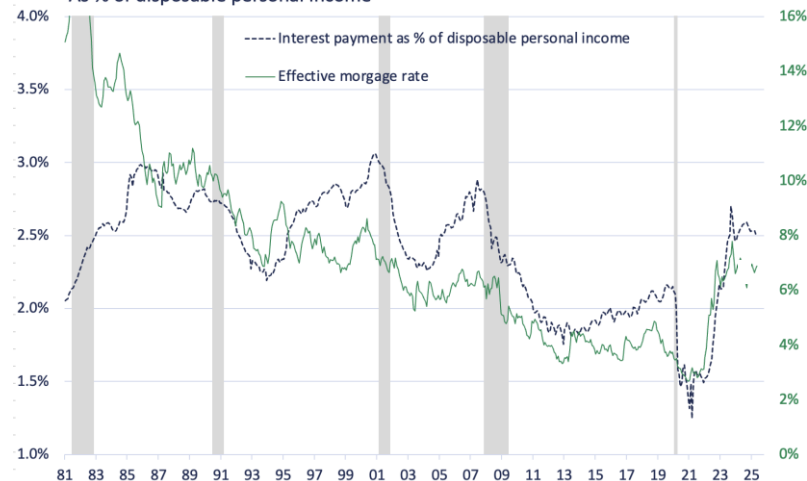
Q2 2025



Sources: Atlanta Federal Reserve, June 2025

Interest payments - United States

As % of disposable personal income



Sources: DGAM, LSEG, June 2025

MACROECONOMIC ENVIRONMENT

Canada: Uncertain and, at best, sluggish growth

Economic growth is expected to remain volatile and below potential in the coming quarters, partly because uncertainty over U.S. tariff policies is holding back trade-related and business investment decisions in Canada.

The increased costs and friction of CUSMA compliance (paperwork, certification and traceability) that exporters face are causing delays and complicating logistics. Many companies are reorganizing their supply chains to mitigate these impacts, which is reducing export volumes.

Among Canadian consumers, confidence remains at historically low levels. To cite one example, uncertainty is weighing on sales of existing properties despite the easing of mortgage rates.

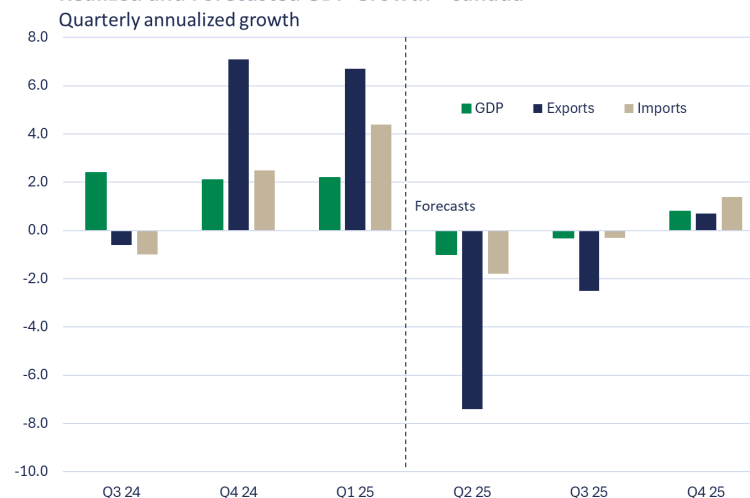
The tightening of immigration thresholds is also a drag on economic activity in the short term. Although in the medium-term lower migration flows could facilitate the integration of new arrivals already in Canada, especially into the job market, the net effect on economic activity is likely to be slightly negative.

Inflation is close to the 2% target, but upside risks from tariffs remain. This context complicates matters for the Bank of Canada, which could opt for a gradual and cautious approach rather than easing monetary policy abruptly.

On a positive note, Canada's fiscal capacity remains strong, especially relative to the other G7 countries. The new federal government has announced stimulus measures focused on infrastructure and defence, as well as tax relief to stimulate demand.

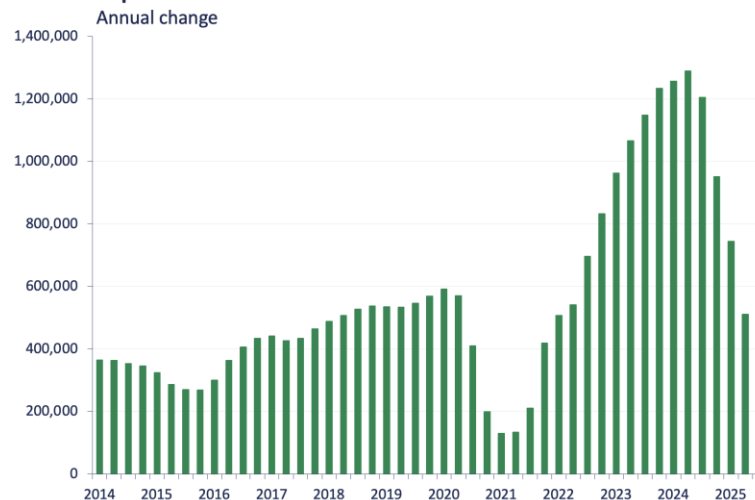
These measures could mitigate the economic downturn, but their effectiveness will be extremely limited in the short term.

Realized and Forecasted GDP Growth - Canada



Sources: DGAM, Bloomberg, June 2025

Population Growth - Canada



Sources: DGAM, Statistics Canada, June 2025

MACROECONOMIC ENVIRONMENT

Europe's ability to adapt in times of crisis should not be underestimated

Germany is set to step on the accelerator with an ambitious stimulus package and increased military spending, but very few countries have the leeway to do the same. Germany has a debt ratio just above 60% (the limit under the Maastricht Agreement), whereas Italy, France, Belgium and Spain exceed 100%.

Europe is well aware that the United States, with a debt ratio exceeding 120%, can no longer afford to cover almost half of the world's military spending on its own. For the time being, the sense of urgency and social acceptability are conducive to an increase in military spending. But the situation could change if European countries reduce social spending to increase their defence budgets.

In the short term, Europe must also act to temper the effects of U.S. tariffs and uncertainty related to trade tensions. The ECB has already eased monetary conditions considerably, with a very expansionary key rate of 2%.

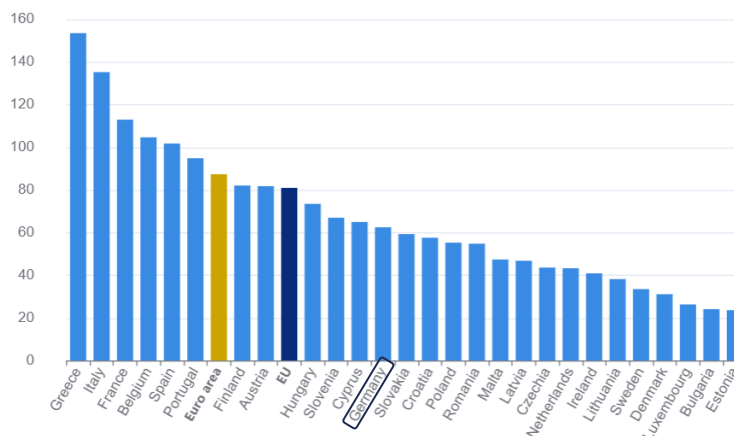
Skeptics will say that Europe is slow to react, even sclerotic. We beg to disagree. Europe has repeatedly demonstrated that it can unify and adapt in times of crisis. At the end of 2022, in the midst of the energy crisis, when forecasters were expecting a recession in Europe, governments mobilized and took measures that reduced the impact of energy costs on households and businesses, lowered natural gas consumption and diversified supply. Ultimately, growth will have significantly exceeded forecasts. As for Europe's dependence on Russian natural gas, it is down from 40% in 2022 to 10% in 2025.

Our recent meetings in Europe with the ECB, the Bundesbank, the European Commission, NATO and influential political strategists have convinced us of the key players' sense of urgency and determination.

Europe's ability to adapt in times of crisis was certainly underestimated by Vladimir Putin in 2022, as it is likely to be today by the Trump administration.

Debt-to-GDP Ratios

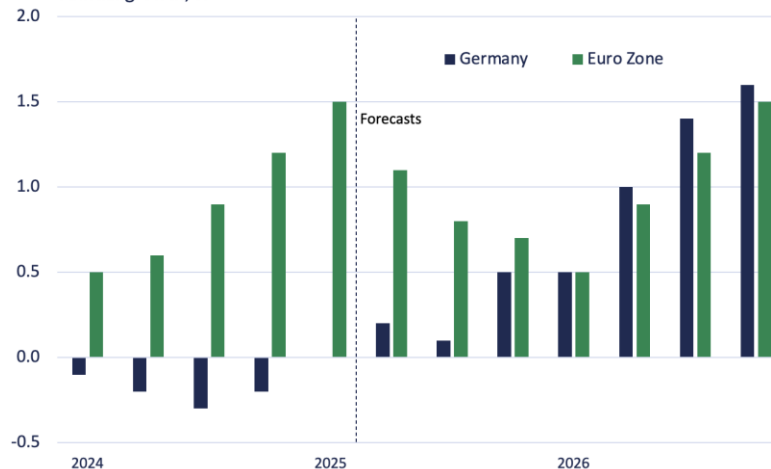
Q4 2024



Source: Eurostat, June 2025

Realized & Forecasted GDP Growth - Germany vs. Euro Area

Annual growth, %



Sources: DGAM, Consensus Economics, June 2025

MACROECONOMIC ENVIRONMENT

Asian countries strengthen their trade ties in response to U.S. tariffs

The combined economies of China, Japan and South Korea account for nearly 30% of global GDP. Although these manufacturing powerhouses have traditionally been rivals, they've grown much closer since the Trump administration launched its trade war. Their goals are to create a predictable environment for business, strengthen their supply chains and eventually conclude a free trade agreement.

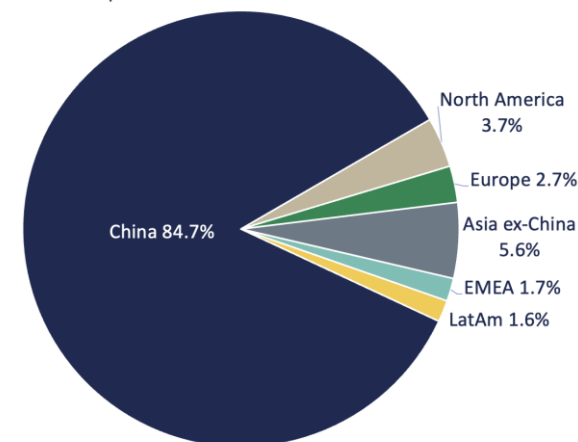
This significant and rapid progress may explain China's independent attitude toward U.S. threats and tariffs. Trump's advisers clearly didn't foresee this turn of events, which confirms the world is now multipolar.

The United States continues to be an important export market for the three countries: 15% of Chinese exports are destined for the U.S., as are 20% of Japanese and Korean exports. The trade war will therefore have consequences but isn't a major blow for the region. First, the United States can't replace these imports with domestic production in the short or medium term. Secondly, the search for new markets is in full swing to reduce dependence on the U.S. market.

The belligerent and unpredictable attitude adopted by the United States will harm the growth prospects of U.S. multinationals in Asia, and Asian and European firms will take advantage of the market turbulence. It will be more difficult to establish with U.S. firms the durable trust-based relationships that are vital for their integration into Asian supply chains. Moreover, in the eyes of consumers, U.S. products have lost a great deal of their lustre, especially in China, an important export market for the United States.

Regional Revenue Split - China

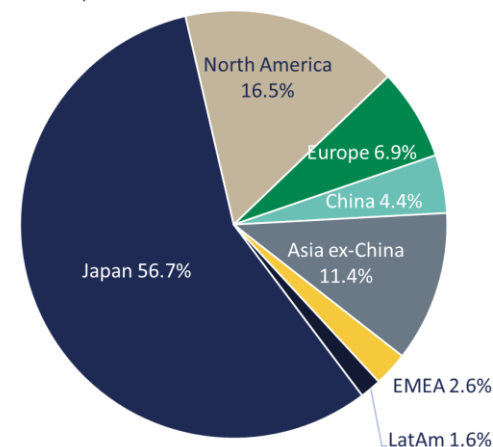
Listed companies



Source: Morgan Stanley Research, 2024

Regional Revenue Split - Japan

Listed companies



Source: Morgan Stanley Research, 2024

VALUATION

Extreme valuations are back despite uncertainty

Valuation allows us to determine whether the price of an asset offers a margin of safety that would enable it to absorb economic shocks or other unforeseen disruptions. In other words, it shows whether the price of an asset discounts a certain degree of risk. As at June 30, the MSCI World Index aggregate valuation was at the 93rd percentile of its historical distribution, up five percentiles since March. Such a valuation obviously leaves no room for disappointment, indicating that stocks are priced for perfection. Yet it flies in the face of current circumstances.

The United States continued to have the most expensive stock market, with the S&P 500's valuation touching the 99th percentile in June. The rest of the global stock market, at the 74th percentile of its historical distribution, was much less expensive.

Canada remained pricey, but Europe and Asia were less expensive, albeit not bargains. All stock markets were very attractive relative to the United States.

Historical Valuation - Aggregate Percentile



Sources: DGAM, LSEG, MSCI, IBES, NBER, *ECRI, Bloomberg, June 30, 2025

MSCI World excl. U.S. Valuation

Metric	June 2025	Per centile	1	Historical percentile	100
Price / forward earnings	14.9	47			
Price / trailing earnings	16.6	50			
Price-to-Book	2.0	67			
Price-to-cash flow	10.4	90			
EV / EBITDA (Ex-financials)	9.8	70			
Price / trailing sales	1.6	100			
Cyclically adjusted P/E (CAPE)	16.0	47			
Aggregate percentile[†]		74			

Sources: DGAM, LSEG, MSCI, IBES, Bloomberg, June 30, 2025

[†]Average percentiles for the seven valuation indicators

MSCI World Valuation

Metric	June 2025	Per centile	1	Historical percentile	100
Price / forward earnings	19.3	83			
Price / trailing earnings	23.2	84			
Price-to-Book	3.6	97			
Price-to-cash flow	16.1	98			
EV / EBITDA (Ex-financials)	13.8	92			
Price / trailing sales	2.5	100			
Cyclically adjusted P/E (CAPE)	25.5	84			
Aggregate percentile		93			

Sources: DGAM, LSEG, MSCI, IBES, Bloomberg, June 30, 2025

VALUATION

All markets are attractive relative to the S&P 500

S&P 500 Valuation

Metric	June 2025	Per centile	1	Historical percentile	100
Price / forward earnings	21.5	90			
Price / trailing earnings	27.9	94			
Price-to-Book	5.0	99			
Price-to-cash flow	19.7	99			
EV / EBITDA (Ex-financials)	15.8	94			
Price / trailing sales	3.3	100			
Cyclically adjusted P/E (CAPE)	35.7	95			
Aggregate percentile		99			

MSCI Asia Pacific Valuation

Metric	June 2025	Per centile	1	Historical percentile*	100
Price / forward earnings	15.3	67			
Price / trailing earnings	17.0	56			
Price-to-Book	1.7	79			
Price-to-cash flow	10.3	86			
EV / EBITDA (Ex-financials)	7.8	46			
Price / trailing sales	1.5	100			
Cyclically adjusted P/E (CAPE)	20.2	48			
Aggregate percentile		79			

MSCI Canada Valuation

Metric	June 2025	Per centile	1	Historical percentile	100
Price / forward earnings	16.1	79			
Price / trailing earnings	20.2	71			
Price-to-Book	2.3	88			
Price-to-cash flow	12.1	95			
EV / EBITDA (Ex-financials)	10.2	84			
Price / trailing sales	2.4	100			
Cyclically adjusted P/E (CAPE)	23.4	72			
Aggregate percentile		97			

MSCI Europe Valuation

Metric	June 2025	Per centile	1	Historical percentile	100
Price / forward earnings	14.5	62			
Price / trailing earnings	15.9	61			
Price-to-Book	2.1	78			
Price-to-cash flow	10.2	88			
EV / EBITDA (Ex-financials)	10.5	74			
Price / trailing sales	1.6	97			
Cyclically adjusted P/E (CAPE)	18.6	67			
Aggregate percentile		83			

MSCI Emerging Markets Valuation

Metric	June 2025	Per centile	1	Historical percentile	100
Price / forward earnings	12.5	59			
Price / trailing earnings	15.1	60			
Price-to-Book	1.9	73			
Price-to-cash flow	10.4	88			
EV / EBITDA (Ex-financials)	10.4	90			
Price / trailing sales	1.2	84			
Cyclically adjusted P/E (CAPE)	15.1	58			
Aggregate percentile		83			

Sources: DGAM, LSEG, MSCI, IBES, Bloomberg, June 30, 2025

†Average percentiles for the seven valuation indicators

VALUATION

Rarely has the U.S. stock market been so disconnected from fundamentals

According to the forward price-to-earnings ratio, the S&P 500 has been more expensive than it was on June 30 only 4.7% of the time since 1985. It is very rare for the U.S. stock market to be so disconnected from its fundamentals, in this case corporate earnings. The last such episode was the speculative bubble of 2000. This extreme deviation is all the more surprising because it comes at a time of equally rare macroeconomic uncertainty and geopolitical tension.

Another surprising fact is the very low dispersion in analysts' earnings forecasts, namely the denominator of the price-to-earnings ratio. Although usually a sign of high conviction, this year it may indicate that analysts have become flummoxed by an unending stream of events with unpredictable consequences.

Outside the United States, it's a different story: Markets are on average marginally above their historical norms, according to forward price-to-earnings ratios.

Stock Index and Projected Earnings - Global excl. United States
Levels, MSCI ACWI excl. U.S.



Sources: DGAM, LSEG, June 2025

Stock Index vs. Earnings - S&P 500



Sources: DGAM, LSEG, June 2025

Price-to-Earnings Ratio - S&P 500



Sources: DGAM, LSEG, June 2025

VALUATION

The current U.S. equity valuation premium is no longer justified

The richer valuation of the U.S. market relative to international markets is usually justified by its superior profitability, stronger earnings growth and greater representation of tech sectors. But, over the past two years or so, the valuation premium of U.S. equities relative to the rest of the world has become detached from relative fundamentals. Publicly traded U.S. companies generate 45% of the developed market's earnings but account for 63% of its stock market capitalization.

But valuation is rarely responsible for a change in market leadership. What's needed is a trigger, something that undermines investor confidence or corporate profitability. Valuation gives an idea of the starting point.

The impact of tariffs on the profitability of U.S. firms and the sense of urgency they have generated in Europe and Asia could well be the trigger.

Under the Trump administration's tariff regime, if the U.S. supply chain is no longer optimized on the basis of production costs but rather the origin of components, profitability will suffer. In international markets, U.S. multinationals are also being hit with tariffs in retaliation for their government's actions.

In contrast, European and Asian multinationals are benefitting not only from a less disrupted supply chain, but also from U.S. companies' loss of competitiveness on international markets and sometimes even boycotts of their products, with Boeing and Tesla being prime examples. Even so, they will have to offset their loss of market share and earnings in the United States by developing new markets. New trade agreements between countries deemed to be reliable partners will be signed at the expense of U.S. firms.

Combined price-earnings ratios, United States vs. world excl. U.S.

Averages of trailing P/E, forward P/E, and cyclically adjusted P/E (CAPE) ratios



Sources: DGAM, LSEG, June 2025

U.S. market capitalization and earnings as % of world



Sources: DGAM, LSEG, June 2025

VALUATION

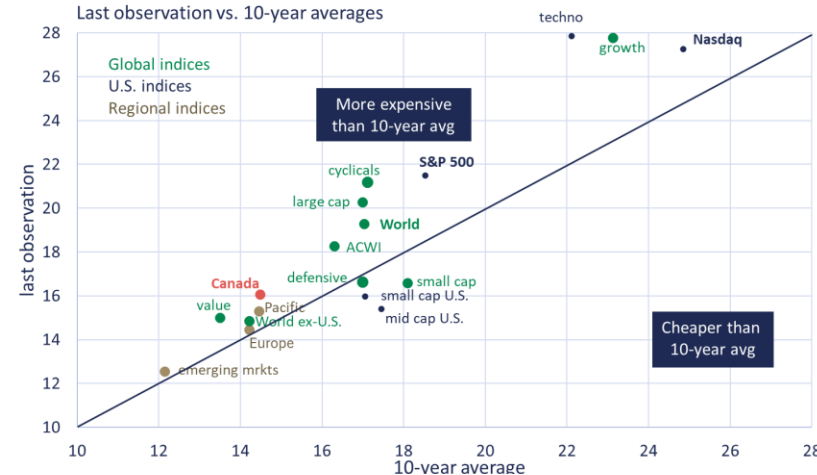
Opportunities even in an overheated market

Mid-cap stocks stand out in terms of valuation. According to the market narrative, investors have neglected this stock class in recent years owing to its low profitability. That said, at about 7%, the proportion of unprofitable companies in the S&P 400 Index is at an all-time low. Small caps are also affordable but, unlike mid caps, have significant profitability and balance sheet issues.

In relative terms, mid caps have even greater appeal. We have constructed an aggregate relative valuation index to compare the S&P 500 with the S&P 400 according to several metrics, and have come to a striking conclusion: The relative valuation of mid caps (S&P 400) was at the first percentile of their historical distribution in June. The last time such a discrepancy was observed, the S&P 400 outperformed the S&P 500 for the next 12 years, namely from 1999 to 2011.

Price-to-Forward Earnings

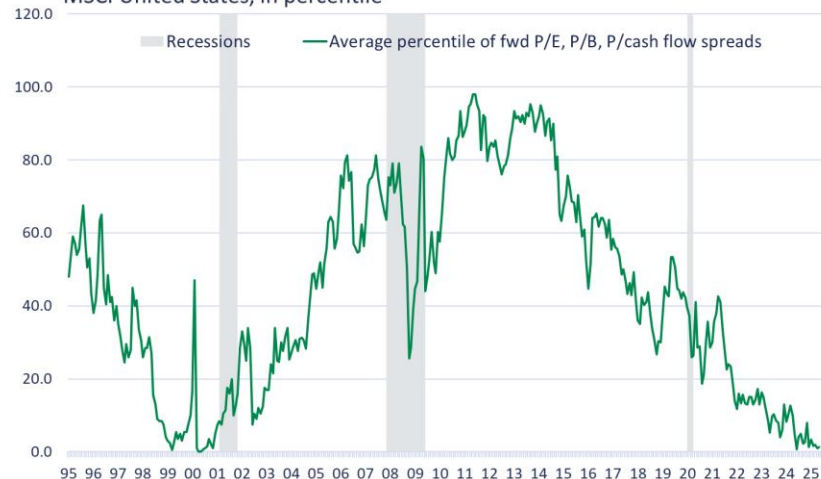
Last observation vs. 10-year averages



Sources: DGAM, IBES, MSCI, June 2025

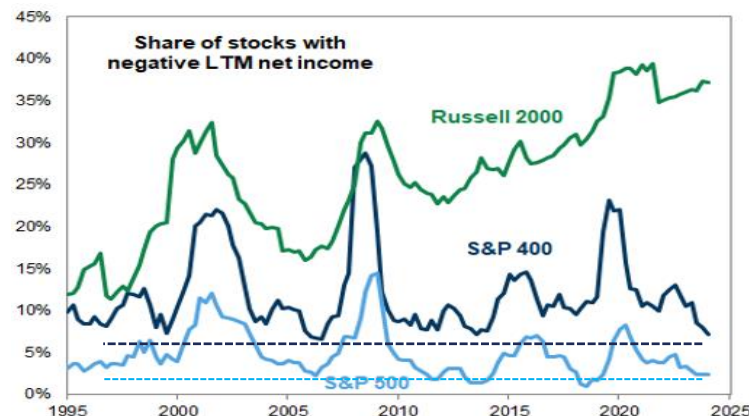
Relative Valuation of Large Cap vs. Mid Cap Stocks

MSCI United States, in percentile



Sources: DGAM, MSCI, Refinitiv, June 2025

Share of Unprofitable Stocks in the S&P 500, S&P 400 et Russell 2000 - Q4 2024



Sources: FactSet, Goldman Sachs Investment Research, May 2025

VALUATION

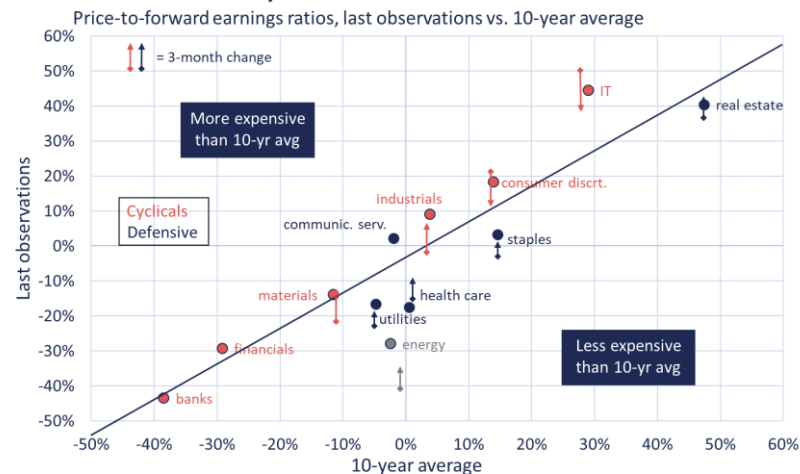
Multiple opportunities across sectors and industries

As at June 30, exposure to cyclical sectors, such as technology and consumer discretionary, could be had more cheaply outside the U.S. and Europe. The industrials sector was generally expensive globally, while the valuation of the banking industry was rather attractive on a relative basis in Europe and the United States.

Defensive sectors were on average very attractive, particularly health care and consumer staples in Europe. Finally, the energy sector was cheap, especially in the United States.

The aggregate valuation of the Magnificent Seven, which was very attractive at the end of the first quarter, has jumped 38% since its April low and thus became expensive again at the end of the second quarter. That said, there were very wide differences in valuation between the companies in the group. The cheapest was Alphabet, at 18 times forward earnings, and the most expensive was Tesla at 136 times earnings.

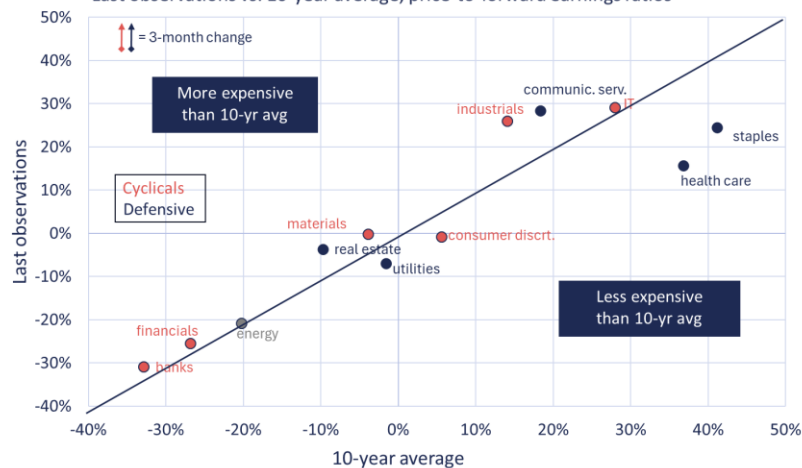
Sectors Premium / Discount vs. MSCI World



Sources: DGAM, IBES, MSCI, June 2025

Sectors Premium/Discount vs. ACWI excl.-U.S.

Last observations vs. 10-year average, price-to-forward earnings ratios



Sources: DGAM, IBES, MSCI, June 2025

Magnificent Seven

Price-to-forward earnings ratio, weighted average



Sources: DGAM, LSEG, June 30, 2025

VALUATION

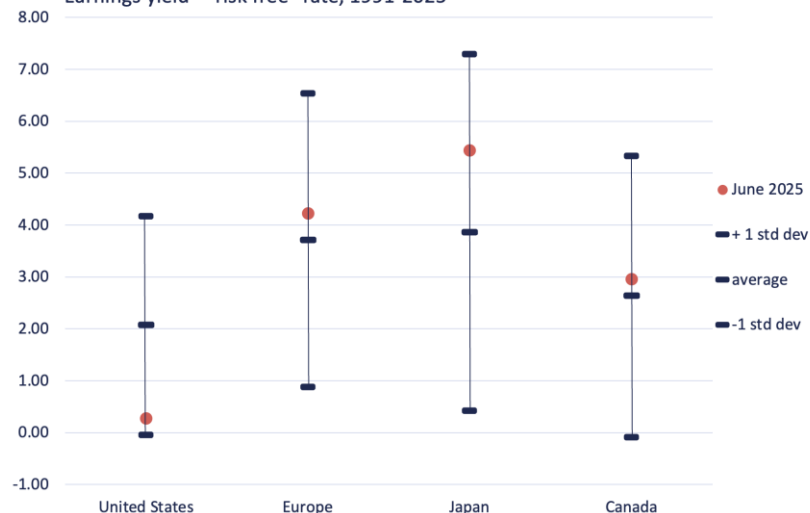
Much better risk compensation in Japan, Europe and Canada

Investors are no longer compensated for the risk they assume with the S&P 500. The combination of high “risk-free” interest rates, namely U.S. Treasury bond yields, and a very rich stock market valuation means the equity risk premium in the U.S. is close to zero. And it’s even negative for the NASDAQ.

The risk premiums for Japanese, European and Canadian equities are more attractive, not only relative to U.S. equities but also on an absolute basis. In fact, the risk premiums of these stock markets are all above their historical averages.

Equity Risk Premium

Earnings yield - "risk free" rate, 1991-2025



Sources: DGAM, IBES, LSEG, June 2025

Risk-Free Rates

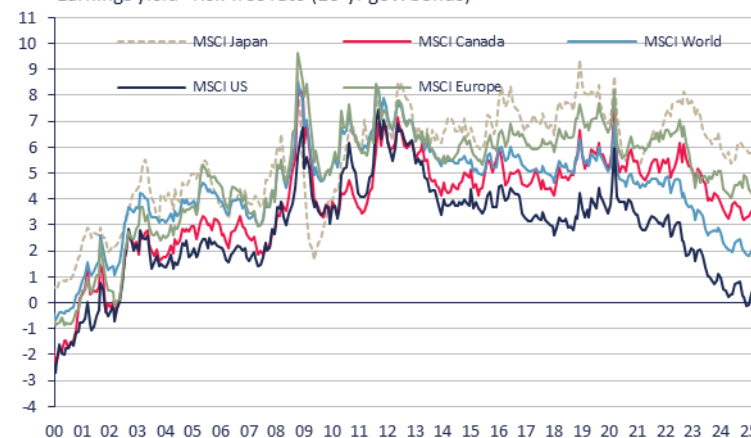
International comparison, 10-year gov. bonds



Sources: DGAM, LSEG, June 30, 2025

Equity Risk Premium

Earnings yield - risk-free rate (10-yr gov. bonds)



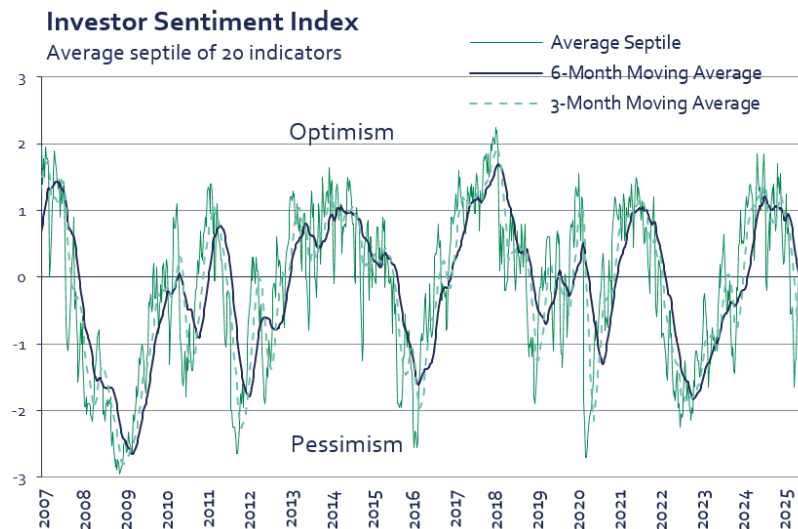
Sources: DGAM, MSCI, LSEG, June 30, 2025

SENTIMENT

Strong rebound in our investor sentiment index

After a brief stay in the pessimistic zone in the spring, our investor sentiment index rebounded strongly at the end of the second quarter. At the end of June, 10 of the 20 indicators that make up the index were in the optimistic zone, versus six in the pessimistic zone and four in the neutral zone. In April, only two indicators were positive.

Historically, the best contrarian buy signal that our index generates comes when it falls deeply into the pessimistic zone. That said, the period of pessimism observed last March and April was very short-lived compared with the historical norm. Such a pronounced rebound in such a short period is quite rare.



Sources: DGAM, LSEG, Bloomberg, State Street Global Markets, June 2025

Sentiment Heat Map		Septile since 1995*						
June 25, 2025		Pessimism			N	Optimism		
		-3	-2	-1	N	+1	+2	+3
Surveys & Positioning	1- Consumer Confidence in Stock Prices							
	2- Advisors' Newsletter Bull Bear Ratio							
	3- AAIL Bull Bear Ratio (Individual Inv.)							
	4- AAIL Net Equity Allocation (Individual Inv.)							
	5- NAAIM Exposure Index (Active managers)							
	6- CFTC Futures Position							
	7- Call/Put Ratio (CBOE)							
	8- State Street Net Stock Allocation							
	9- State Street Behavioral Risk F&H							
Volatility	10- VIX (I)							
	11- MOVE (Treasury Options Volatility) (I,N)							
	12- EM FX Volatility (I)							
Financial Data	13- US IG Bond Spread (I,N)							
	14- Small Caps Relative Performance 3M							
	15- G10 Economic Surprise Index							
	16- Analyst Forward EPS Dispersion (I,N)							
	17- Earnings Revision Ratio							
Technical	18- Relative Strength Index 14D (MSCI World)							
	19- Nb Stocks > 200D MA (MSCI World)							
	20- % 1Y New Highs vs Lows (MSCI World)							
* When available. If not, data since available I: Indicator ↑ = Sentiment ↓ N: Normalized indicator		-3	-2	-1	N	+1	+2	+3
		Pessimism				Optimism		

Sources: DGAM, LSEG, Bloomberg, State Street Global Markets, June 2025

SENTIMENT

Who are the buyers driving the stock market rebound?

Clearly, the buy-the-dip strategy is still alive and well despite the Trump administration's unpredictability. The NASDAQ Index surged 33% from its April low and peaked at the end of June, as did the S&P 500, which recovered its loss in record time.

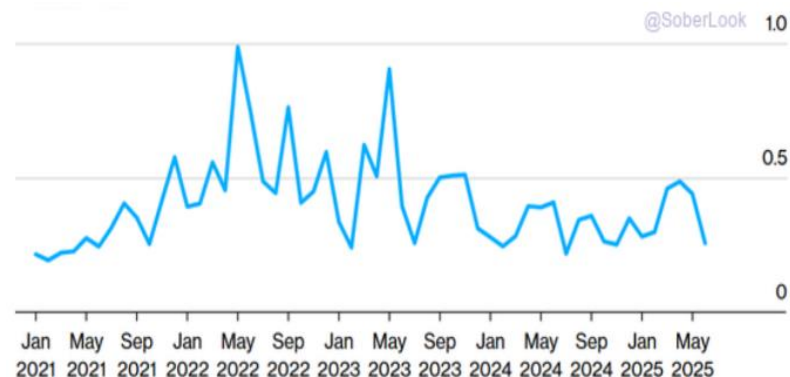
Are investors hoping for a lull after the tariff storm? Do they expect Trump to calm down after a chaotic start to his term? Of course, the majority of companies will still be around in four years, but we think it's risky to count on a temporary reprieve from the Trump administration's attacks, particularly against the Fed Chair and U.S. and international institutions. After all, the strategy is to destabilize to advance their agenda.

Moreover, institutional investors have been relatively cautious this year. High prices and uncertainty have dampened their appetite, except at the tail end of the quarter, when they had to buy to limit their underperformance relative to the market or to cover their short selling.

As for insiders, they took advantage of the rebound to sell their own companies' shares at the highest pace of the past seven months.

On the buy side, small investors remained very active. Their feeling of invincibility is intact, and they take advantage of every dip to bet on a rebound. Companies have also bought back their shares at a record pace so far in 2025. It was most likely this combination of buyers that fuelled the rally in the second quarter while professional portfolio managers chose to exercise restraint.

Insider Ratio



Sources: Washington Service, June 11 2025

Corporate Buybacks - United States & Japan

Share Repurchase Program Authorized year-to-date



Sources: Nomura, JP Morgan, June 2025

SENTIMENT

Is bad news good news for the markets?

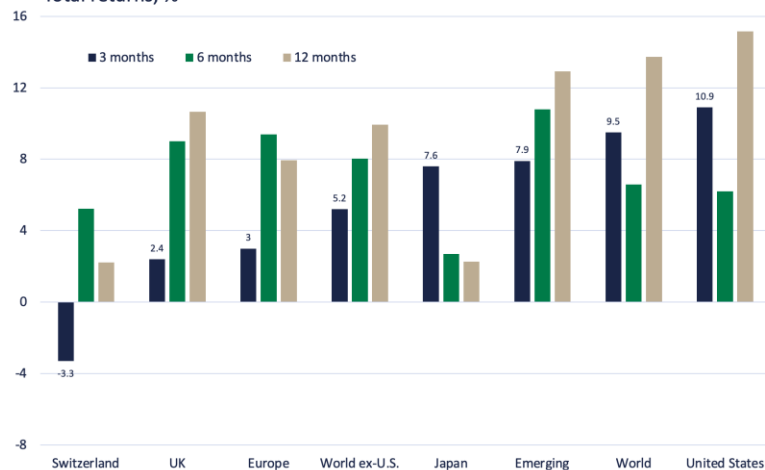
In the United States, with inflation remaining well above the central bank's target, investors generally welcomed the fact that second-quarter economic data fell short of expectations. Weaker economic indicators will eventually prompt the Fed to ease credit conditions, provided that inflation slows.

Elsewhere in the world, inflation isn't an issue, and equity markets reacted well to economic data that exceeded forecasters' low expectations.

The U.S. market took the prize for the top-performing market in the second quarter, although the newsflow was better elsewhere. But emerging countries and Europe outperformed over the first half of the year as a whole.

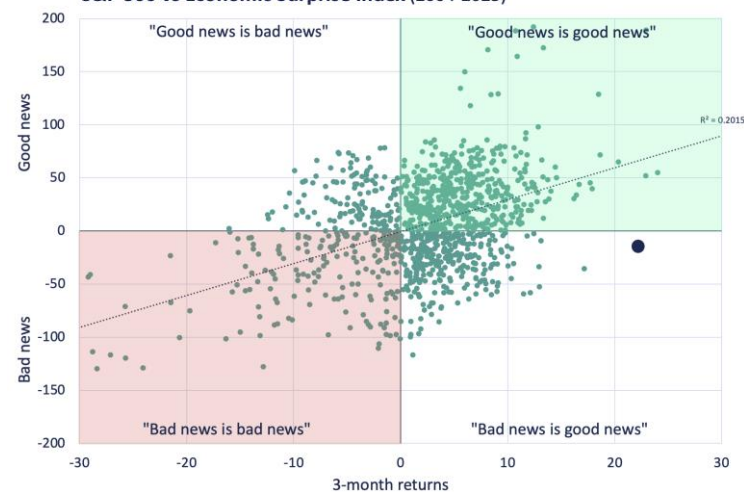
Equity Markets Performances

Total returns, %



Sources: DGAM, MSCI, Refinitiv, June 2025

S&P 500 vs Economic Surprise Index (2004-2025)



Sources: DGAM, Refinitiv, June 2025

MSCI World excl. U.S. vs Economic Surprise Index (2004-2025)



Sources: DGAM, Refinitiv, June 2025

SENTIMENT

Portfolio managers exercise restraint

According to State Street, institutional investors were still heavily exposed to equities as at June 30. At the end of the quarter they increased their exposure, not because of better visibility on fundamentals, but probably to limit their underperformance in a surging market. The calming of trade tensions, particularly with China, may have contributed to their sentiment of having avoided the worst. But the worst wasn't reflected in their positioning at the start of the quarter. It's difficult to argue, therefore, that their sudden appetite for equities at the end of the quarter was due to the lull in tensions.

The Bank of America Fund manager survey provided evidence of cautiousness, however. It showed an increasing level of cash, with the majority of respondents saying they were underweight equities. The managers surveyed also said they were taking less risk than they normally would.

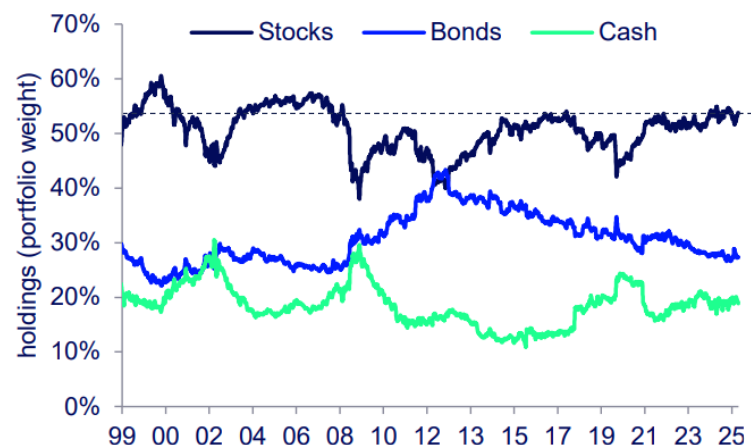
It's always a challenging environment for active managers when markets get carried away in defiance of fundamentals and risks. Having strong convictions is more difficult, as seen from the divergent conclusions derived from the metrics cited here.

Managers Taking Higher Than Normal Risks



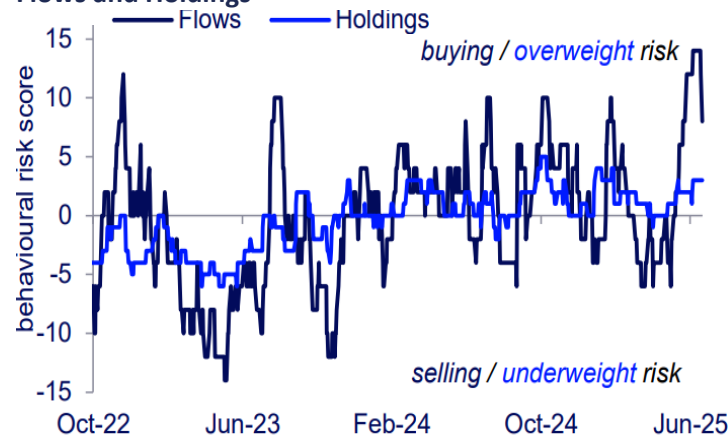
Asset Allocation Across Asset Categories

Institutional investors, standardized measures



Source: State Street Global Markets, June 2025

Flows and Holdings



Source: State Street Global Markets, June 2025

SENTIMENT

Regional repositioning as the start of a long-term trend

Have investors begun rebalancing their regional allocation in line with the return of a multipolar world? Some capital-flow metrics show that this is indeed the case. But, with record allocation to the United States, the starting point is very high.

EPFR data show that the overweight in U.S. equities has been declining for a year and that the European and Chinese markets have recently gained popularity among asset allocators.

State Street's data, the largest sample of institutional funds, also shows a decline in U.S. equity allocation in the first half of the year, but from a very high level in January, when it was at the historical 99th percentile. Interest in emerging markets remains modest, but there have been some inflows in recent months.

Data compiled by Bloomberg and LSEG on capital flows into U.S. and European ETFs also show outflows from the U.S. into Europe.

Finally, according to a Bank of America survey of portfolio managers, interest in the euro zone and emerging markets is on the rise, and managers are now underweight U.S. assets. Their U.S. dollar underweight appears to be the largest in two decades.

Our long experience with institutional funds and the consultants who advise them leads us to conclude that the repositioning process will be lengthy. Investment committees usually meet only a few times a year. Once investment policies have been changed, the search for regional managers begins and may take several months. In the short term, portfolio managers may deviate from their benchmarks within investment policies. This is the first step and the one we have seen so far this year.

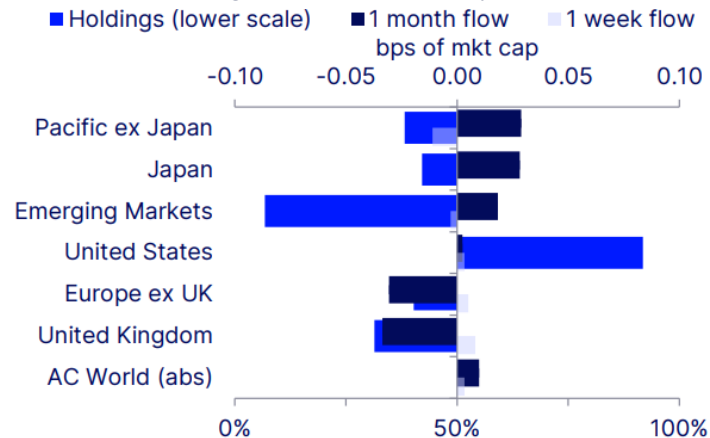
Flows and Holdings: Global Equity Funds



Sources: EPFR, Nomura, June 2025

Regional Allocation – Institutional Investors

Flows and holdings, normalized over 5 years



Source: State Street Global Markets, June 2025

SENTIMENT

Sector performance confirms rebounding optimism

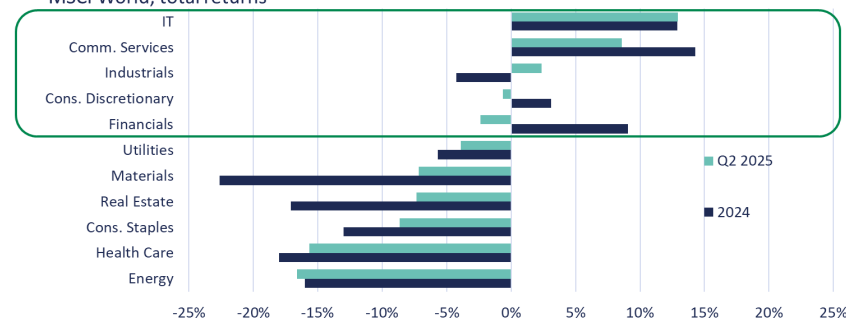
In the first quarter, when uncertainty was shaking the convictions of the most optimistic investors, a rotation into defensive sectors had clearly begun. The underperformance of cyclical sectors was substantial.

Three months later, the situation has completely reversed itself, and the outperformance of cyclical sectors relative to defensives is close to three standard deviations. Movements of this magnitude have been seen only five times in the past 25 years.

These rapid, widespread sector shifts confirm the return of investor optimism after a brief period of anxiety.

Relative Returns - Sectors

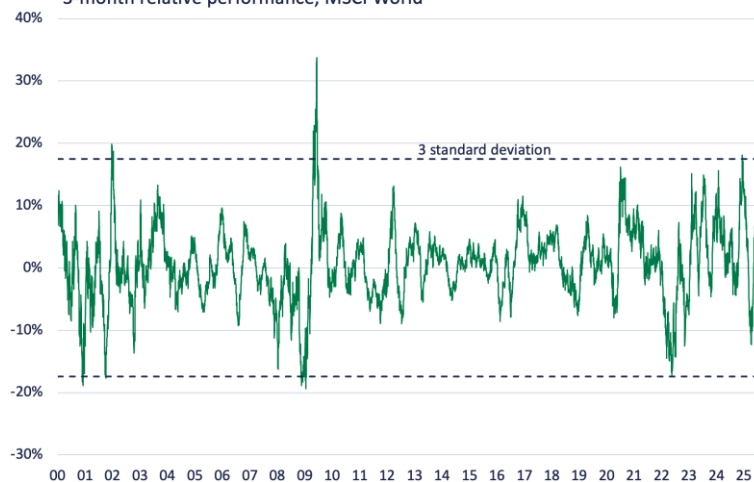
MSCI World, total returns



Sources: DGAM, MSCI, as of June 30, 2025

Cyclicals vs. Defensives Sectors Relative Performance

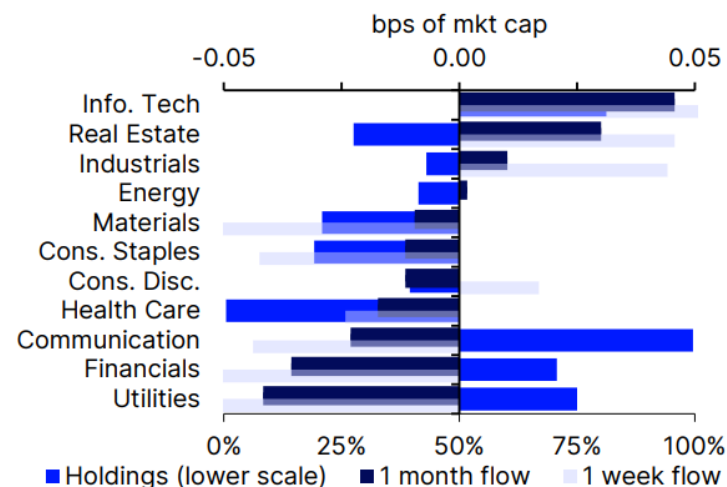
3-month relative performance, MSCI World



Sources: DGAM, LSEG, June 2025

Sector Allocation – Institutional Investors

Flows and holdings, normalized over 5 years



Source: State Street Global Markets, June 2025

CONCLUSION

GLOBAL OUTLOOK	Macroeconomic environment ↑	Valuation →	Sentiment ↓
December 31, 2024	Neutral	---	--
March 31, 2025	--	---	+
June 30, 2025	-	--	-

MACROECONOMIC ENVIRONMENT: THE U.S. IS UNPREDICTABLE, BUT THE REST OF THE WORLD IS MOBILIZING IN RESPONSE

The deceleration of global growth will continue in the coming quarters but very unevenly across regions. Expansionary monetary and fiscal policies in Europe and Asia will be growth-friendly, but in North America uncertainty caused by the Trump administration will undermine economic activity. Moreover, with inflation still an issue in the United States, the Federal Reserve's monetary policy will stay restrictive for several more months. Trade tensions peaked in April but eased somewhat in May and June, so much so that the consensus was that the worst had been avoided. But Trump's strategy is one of destabilization, so the reprieve may be short-lived. More attacks on institutions, including the Federal Reserve, are to be expected, as well as further trade friction. Even so, we have revised the macroeconomic environment up from double-negative to single-negative owing to the reprieve and the policies adopted in Europe and Asia.

MARKET VALUATION: NO MARGIN FOR ERROR DESPITE THE UNCERTAIN ENVIRONMENT

Stock market valuations quickly returned to the extreme levels seen at the start of the year. For the MSCI World, our aggregate metric based on the most commonly used valuation ratios was at the 93rd percentile of its historical distribution as at June 30. The S&P 500 was at the 99th percentile, far above what its fundamentals justify. In fact, all episodes of such a disconnect between stock prices and corporate earnings have ended in the same way: Prices adjust up or down to corporate realities. That said, even in such an expensive market, opportunities could still be found. Risk premiums in the European and Japanese markets were attractive, as was the valuation of mid caps, even in the United States. Thus, although the aggregate global market valuation warrants a triple-negative rating, we are keeping our valuation vector at double-negative because of continued opportunities in some market segments.

INVESTOR SENTIMENT: BUY THE DIP LIVES ON

The S&P 500 recovered from its March and April decline at record speed and went on to hit new highs in June. The 33% rise in the NASDAQ from April to June also reflects the significant recovery in risk appetite, as well as the extreme outperformance of cyclical sectors versus defensives. But, on the basis of all our sentiment indicators, we can't conclude that all categories of investors we monitor were euphoric. The very rapid rebound in the stock market was fuelled mainly by a sense of invincibility on the part of small investors and corporate share buybacks. Insiders, professional managers and institutional investors were more restrained. But, as with valuation, the biggest surprise was the hostile and unpredictable environment in which optimism manifested itself, particularly in the U.S. market. We are therefore going against the grain of investor sentiment and lowering our vector from single-positive to single-negative.

Our analysis of the three vectors has prompted us to maintain a defensive bias. The stark contrast between macroeconomic risks and valuation and sentiment drivers call for caution. We are confident that volatility will return, creating attractive opportunities.

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