

MACROECONOMIC AND INVESTMENT OUTLOOK

Outlook 2025: “Make Europe Great Again”

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Outlook 2025: "Make Europe Great Again"

Since the beginning of the year, risk assets have continued their upward trend, despite persistent tensions linked to D. Trump's trade policies. The famous "Liberation Day" is a perfect example of this: after sending shockwaves through financial markets, risk assets quickly rebounded, buoyed in particular by the announcement of a 90-day truce and talks that point towards a more positive outcome in tariff negotiations between the United States and its main trading partners.

Nevertheless, recent performances leave little margin for error, and valuations do not seem to reflect the persistent climate of uncertainty.

Key factors to watch out for



FEARS OF A GLOBAL ECONOMIC SLOWDOWN PERSIST

The economic climate in the USA continues to deteriorate, despite the resilience of business activity. Indeed, macroeconomic indicators – the so-called "hard data" – reveal that the US economy is still robust, albeit in the process of decelerating. **On the other hand, the forecasts of economic players – the "soft data" – reflect growing pessimism¹:** US consumer confidence, in particular, continues to erode².



EARNINGS GROWTH EXPECTATIONS HAVE BEEN REVISED DOWNWARDS ONLY marginally

The earnings season for the first quarter of 2025 has been positive overall, and the outlook for earnings growth remains favourable³. In this sense, earnings per share (EPS) projections for 2025 may not fully reflect the normalization of economic growth taking place on both sides of the Atlantic. This divergence between EPS projections and the macroeconomic environment could eventually fade, leading to a potential readjustment of earnings growth expectations.

¹ Tikehau Investment Management ("TIM"), Bloomberg, data as of 05/09/2025.

² TIM, Bloomberg, data as of 05/31/2025.

³ TIM, FTSE, IBES, LSEG Datastream, MSCI, S&P Global, J.P. Morgan Asset Management, data as of 05/31/2025



NEW FRAMEWORK, NEW GUIDELINES

The ongoing high interest rates regime could continue to drive greater dispersion across asset classes.

On the corporate side, this will impact issuer refinancing capacities, and excessive leverage could continue to be a source of stress. On the government side, elevated budget deficits have led to a soaring cost of debt, becoming a significant constraint in public debt management.

Finally, the post-Covid years have been marked by a strong investment bias toward U.S. markets, generating excess performance and, by extension, the formation of a premium in favour of U.S. assets. **A potential reallocation of flows — and a correction of this premium — could emerge as a key market theme in the coming months.**



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Although many uncertainties persist, it is essential to remain invested: growth is slowing but remains positive, the disinflation cycle is now providing greater visibility, particularly in Europe, monetary and fiscal stimulus measures are being deployed in various parts of the world, and the reallocation of capital flows is opening a new path for investment within the Old Continent. **Nevertheless, given high valuations, it is essential to maintain reserves of liquidity** to navigate these markets and seize opportunities as they arise.

Is credit still attractive?



Although credit risk premiums have tightened on both sides of the Atlantic⁴, credit remains an essential asset in an allocation for its ability to generate income, clip coupons and build capital.

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In the High Yield segment in particular, we believe that issuers' fundamentals are still in good shape: default rates remain contained⁵ and net margins are holding up at comfortable levels in Europe⁶. In addition, technical factors continue to contribute to the tightening of risk premiums. Indeed, we are seeing continuous inflows⁷ into the asset class at a time when the size of the European High Yield market is shrinking⁸ (from around 500 billion euros in 2021 to 364 billion today).

Finally, in the face of recent volatility, High Yield has proved resilient and thus offers, in our view, a cushion of performance with low volatility. Credit therefore remains a central pillar of an allocation.

In this sense, building a portfolio exposed to quality issuers with reasonable leverage levels and yields of 4% to 6%⁹ is now a core strategy. There's no need to venture into overly complex issuers facing, for example, refinancing difficulties to find profitability, since even high-quality issuers can now offer attractive yields. This core strategy can be complemented by two satellite strategies, aimed to further optimize portfolio yields while taking advantage of significant market dislocations. These include:

⁴ TIM, Bloomberg, data as of 06/09/2025.

⁵ TIM, FactSet, Goldman Sachs Global Investment Research, data as of 04/25/2025.

⁶ TIM, FactSet, Goldman Sachs Global Investment Research, data as of 04/25/2025.

⁷ TIM, J.P. Morgan, Bloomberg Finance L.P., data as of 06/06/2025.

⁸ TIM, Bloomberg, data as of 06/06/2025.

⁹ TIM, Bloomberg, data as of 06/09/2025.

LOWER RATED BONDS, PARTICULARLY CCC.

Indeed, the outperformance of the BB segment has made this segment less attractive (BB risk premium ratios are close to lows compared to the rest of the High Yield segment)¹⁰. Consequently, stepping away from the BB universe by selecting issuers deemed to be of high quality but with lower ratings, notably CCC, can generate additional yield. With yields close to 18%¹¹ despite default rates of only around 3-4%¹², this segment offers interesting opportunities for rigorous and selective investors.



SUBORDINATED FINANCIAL BONDS

Last quarter's results once again demonstrated the solid fundamentals of the European banking sector¹³. Within financial bonds, we prefer subordinated AT1¹⁴ bonds in particular, which offer yields deemed attractive in absolute terms and relative terms compared to corporate bonds of the same rating (with an estimated average yield differential of around 200bps¹⁵ between AT1s and corporate bonds of the same rating).

Within the banking sector, we are focusing on top-tier European banks that are well capitalized and have healthy solvency levels. We also remain exposed to peripheral banks, such as those in Spain, Portugal and Greece, which have made considerable efforts to clean up their balance sheets in recent years.

Finally, for the time being, we are maintaining a limited sensitivity to interest rates: the relative flatness of the High Yield curve is reducing the attractiveness of longer maturities¹⁶. Moreover, rate volatility could be the main channel for stress transmission in 2025, given high levels of budget deficits and the ambitions of the Trump administration.



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¹⁰ TIM, Bloomberg, data as of 06/09/2025.

¹¹ TIM, Bloomberg, data as of 06/09/2025.

¹² TIM, FactSet, Goldman Sachs Global Investment Research, data as of 04/25/2025.

¹³ TIM, bank publications, Bloomberg, data as of 03/31/2025.

¹⁴ Subordinated bonds, also known as AT1 (Additional Tier 1), are financial instruments issued by banks to strengthen their capital in line with new regulatory requirements introduced following the 2008 financial crisis. Although these products have performed well, they still carry a very high credit risk that needs to be taken into account.

¹⁵ TIM, Bloomberg, data as of 05/31/2025.

¹⁶ TIM, Bloomberg, data as of 06/06/2025.

How to invest in equities?



Although high valuations, particularly in US equities, leave little room for error, we believe that increasing dispersion offers investment opportunities in certain well-identified segments:



In Europe, faced with a historic discount compared to US markets, the emerging concepts of **sovereignty, autonomy and resilience** present investment opportunities in sectors such as **defence, technology, pharmaceuticals, infrastructure and energy**.



In the United States, the technology sector remains essential in an equity allocation. Furthermore, the theme of performance broadening is set to continue throughout the year. In this context, **the significant underperformance of defensive stocks opens up new investment opportunities, particularly in the healthcare sector.**



EUROPEAN EQUITIES: HISTORIC DISCOUNT COMPARED TO US EQUITIES

Negative investor sentiment, underexposure and the historic discount to the US all point to a favourable entry point for investing in European equities. Moreover, positioning in eurozone assets remains close to historical lows, and the recent flow dynamic that appears to be increasingly shifting in favour of European equities could continue, providing further support to the asset class.

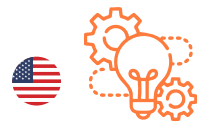
Within European equities, the emergence of the concept of European sovereignty is opening up new investment opportunities across the Old Continent. To this end, the European Commission and member states have launched various initiatives aimed at investing colossal sums in certain sectors identified as strategic, such as defence. In our view, supporting European companies that could benefit from these investments, such as Airbus¹⁷ or Rheinmetall¹⁸, could generate long-term performance.

¹⁷ The companies mentioned are used for illustrative purposes only, and do not constitute an investment recommendation or investment advice.

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US EQUITIES: CONFIRMED GROWTH, DISPERSED VALUATIONS – THE "MAGNIFICENT 7" EQUATION

Over the past decade, technology companies' earnings have grown faster than the overall market. Indeed, many companies continue to post double-digit growth rates¹⁹ particularly in online advertising, artificial intelligence and the Cloud.

At the same time, valuations of the "Magnificent 7" have declined since the beginning of the year, and this segment now offers some opportunities, provided investors remain extremely selective. In this respect, **the growth bastion of technology remains essential, and exposure to it is crucial according to us.**

Finally, against a backdrop of growing uncertainty, defensive stocks could prove more resilient and gain attractiveness. Within this segment, the healthcare sector offers attractive opportunities, particularly in sub-segments such as medtech and animal healthcare.

This unprecedented environment for investors will be synonymous with strong market dispersion: now more than ever, it is essential to prioritize fundamental analysis and stock selection, both in credit and equity markets.



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¹⁹ TIM, Bloomberg, data as of 06/06/2025.

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