NATIXIS INVESTMENT MANAGERS | SOLUTIONS

MACRO COMMENTARY | July 2025

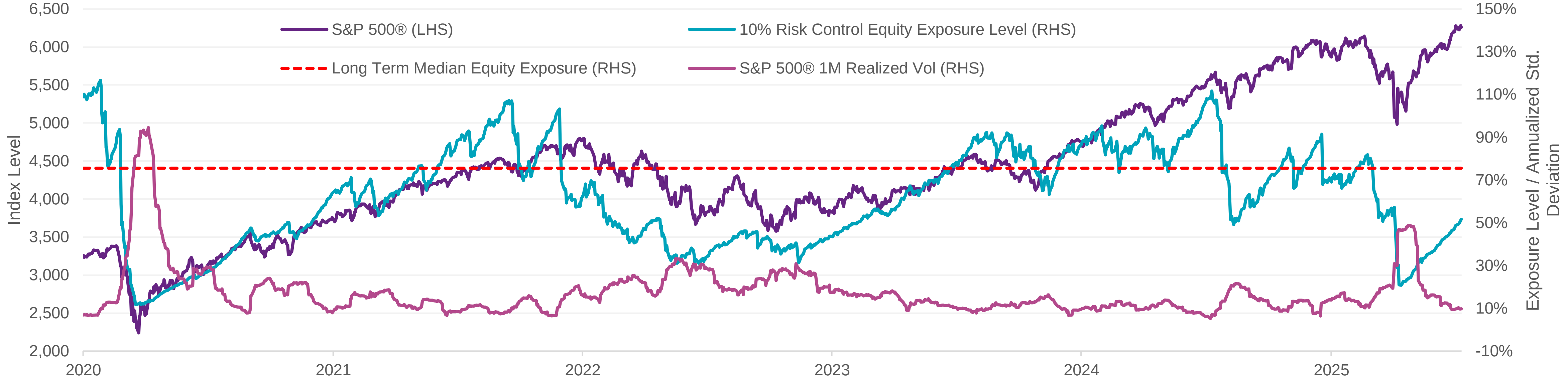
Charts and Smarts®

Jack Janasiewicz, CFA®
Multi-asset Portfolio Manager and Lead Portfolio Strategist

Garrett Melson, CFA®
Portfolio Strategist

And the Healing Has Begun

S&P 500® Daily Risk Control 10% Exposure Level (1/2/20–7/11/25)

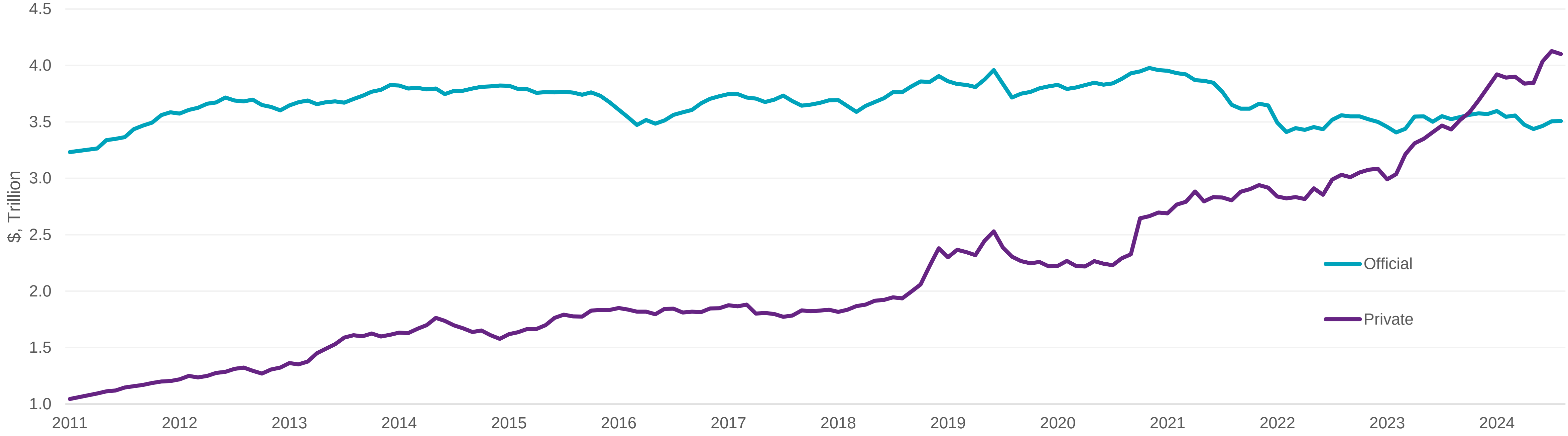


The rally off the April lows has been nothing short of stunning as the market has surged 30% off the intraday lows on April 7 and reclaimed a new all-time high in just 56 trading days. The rally was clearly set off by the severing of the crisis left tail in the wake of the initial pause on the now infamous reciprocal tariffs, which restored markets' confidence in the existence of the Trump Put and morphed into the now equally infamous TACO (Trump Always Chickens Out) trade. While the clipping of the left tail was critical to the early stages of the rally, technicals and sentiment have taken firm control of the reigns as the pain trade has continued to grind higher. While flows showed little in the way of retail capitulation during the painful selloff, institutional portfolios, and perhaps more importantly, systematic strategies, swiftly de-risked only to find themselves offsides as markets began to find their footing. With volatility compressing and investors growing immune to recycled tariff threats, those underexposed institutional and systematic strategies have been steadily re-risking over the past few months. While trend-following strategies seem to have rapidly gotten back onsides, risk parity funds, which employ leverage across assets to target specific volatility levels, are still running light on equity risk. The S&P 500® 10% Risk Control Index, which dynamically adjusts equity exposure to target 10% volatility, provides a look into how these risk parity strategies may be allocating. The index's equity exposure slid below 20% as the market was in freefall, and while the exposure has been grinding higher, as realized, and implied volatility has compressed, the exposure level remains well below its long-term average at just 50%. While sentiment has certainly recovered and some pockets of these systematic strategies have re-risked, there may be yet more fuel to power the pain trade as investors broadly remain far more concerned about being left behind than being exposed to potential downside. That may be supportive in the near term, but it is also sowing the seeds for a potential consolidation or pullback should growth fears take hold of the narrative.

Source: Portfolio Analysis & Consulting, Bloomberg.

Blue Money

Foreign Holdings of US Treasury Bonds & Notes (9/30/11–4/30/25)

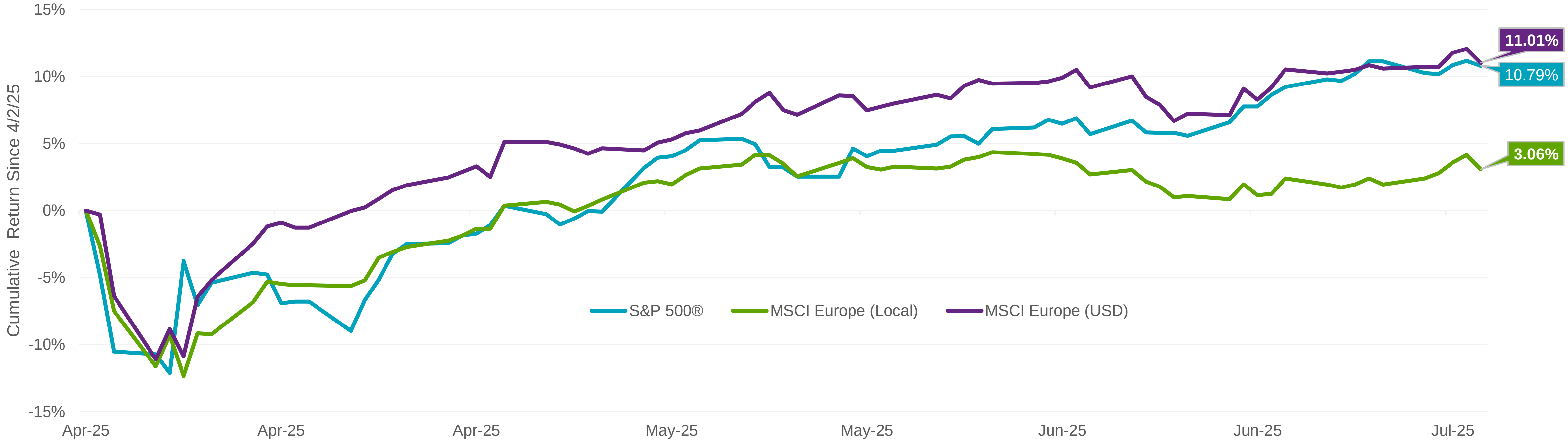


It's taken some time for the data to roll in, but we finally have some convincing evidence poking holes in the so-called "Sell America" trade that gripped the narrative in the wake of Liberation Day. The emerging markets type price action of coincidental selling in equities, rates, and the dollar, which stoked fears that foreign investors were abandoning US assets en masse, appears to have been more a compelling narrative than a true case of capital flight. We've seen evidence in fund flows over the past few months that this narrative was more bark than bite as flows data for foreign domiciled funds told a simple story of foreign investors incrementally allocating new funds to non-US assets, as opposed to rotating out of US equities and bonds. April data released by the Treasury International Capital system, which tracks cross-border capital flows and holdings of US assets, confirms those early suspicions as foreign holdings of long-term US Treasury bonds and notes were little changed as of the end of April. While holdings of private purchasers declined just under $47B, holdings of foreign official institutions, including Treasurys, ministries of finance, central banks, stabilization funds, and central government fiscal agents increased $6B for a net change of almost -$41B. While the flows are suggestive of modest outflows driven by private investors, which does mark a shift from the trend of steady flows to Treasurys from those investors over the past few years, that figure is hardly an anomalous outlier. Pair that with a modest $18B decline in US equity holdings and it has becoming increasingly clear that there's little evidence to suggest that foreign investors have embarked on an exodus out of US assets.

Source: Portfolio Analysis & Consulting, Bloomberg.

Brand New Day

US vs Europe Performance Since Liberation Day (4/2/25–7/11/25)

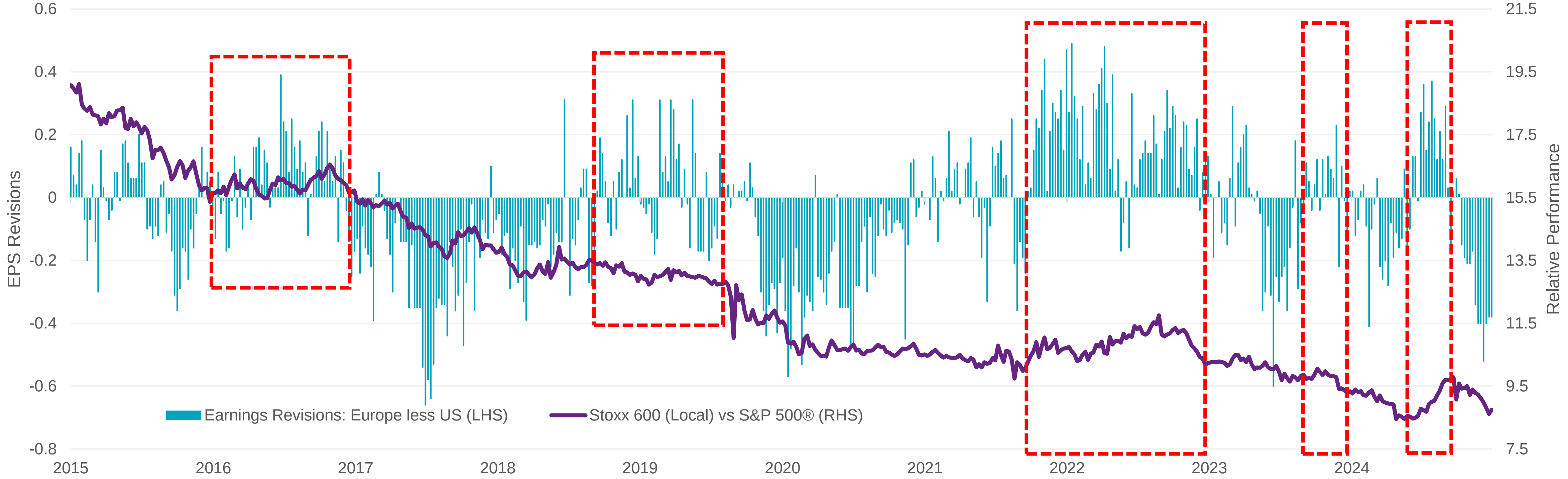


Another theme that has emerged as the rally has progressed is that the US has quietly reclaimed the leadership flag. Since the close prior to the Rose Garden unveiling of the reciprocal tariff charts, the S&P 500® Index is up nearly 10%. Europe still sits atop the leaderboard in USD terms as its returned just over 10% over that time, but that edge is almost entirely a function of the dollar's steady slide against the Euro. Stripping out the currency effects, European equities are up just 1.7%. As a result of the local currency outperformance, the US has now clawed back to within striking distance of European equities in local terms for 2025. Nearly all of the performance gap is now simply a function of the dollar's decline against the Euro, which raises two key points. First, the lack of any meaningful thrust in the local currency performance of European equities adds yet more evidence that suggests we haven't seen significant capital flight and repatriation flows out of US equities and back to European markets. Second, as investors look at the back half of 2025, the risk of continued European outperformance appears to boil down largely to a currency call. A call on continued leadership for European equities is largely a function of the dollar continuing its decline. The consensus is growing increasingly crowded in expecting further weakness, all while futures positioning is already meaningfully net short the dollar and growth revisions and real rate differentials argue for a stronger, not weaker, greenback. Should the dollar stabilize to even modestly strengthen, a return to US leadership may be in the cards for the balance of the year.

Source: Portfolio Analysis & Consulting, Bloomberg. **Performance data shown represents past performance and is no guarantee of future results.**

Into the Mystic

US vs Europe: Performance vs Earnings Revisions (7/3/15–7/11/25)

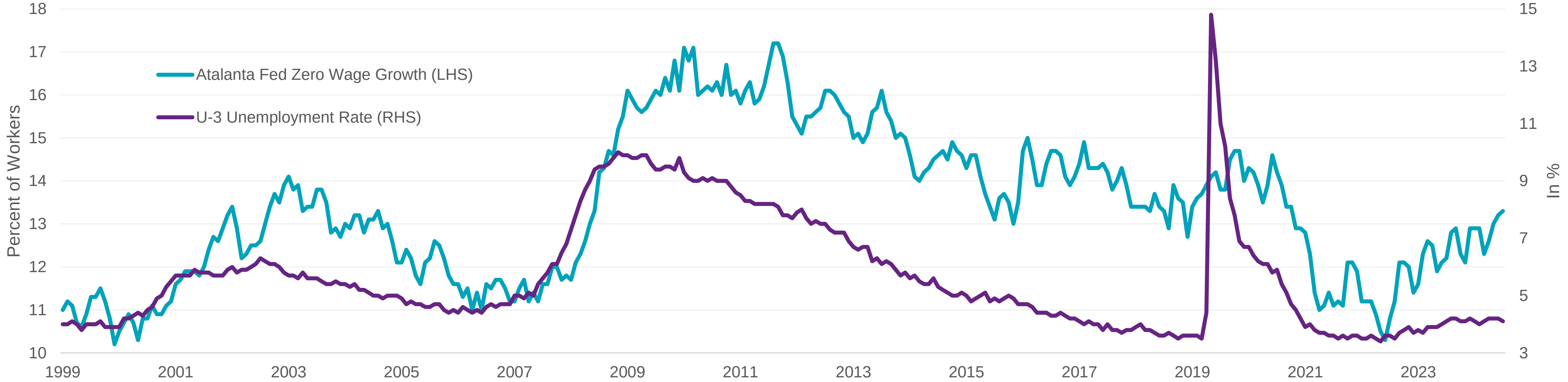


Further bolstering the case for a resumption of US equity market leadership in the second half of 2025 is the fact that earnings revisions have flipped significantly back in favor of the US. The run of outperformance for Europe to start the year coincided with a flip in relative revision ratios, which saw momentum in earnings estimate revisions move heavily in favor of Europe relative to the US. While the past decade has been defined by steady outperformance of US equities, periods of flat to positive performance for European equities, relative to US equities, have generally occurred when earnings revisions favored Europe. But those periods have generally proven fleeting, and that has proven no different this year as the US is now seeing greater upside momentum in revisions relative to Europe. Unsurprisingly, the recent shift in revisions ratios has aligned with that run of outperformance for US equities over European local currency performance since the April lows. Moving forward, it seems that the drivers of European outperformance in 2025 appear to have reversed. Not only will a stronger Euro, both against the dollar and on a trade weighted basis, risk weighing on top- and bottom-line growth for European issues in the coming quarters, but should the dollar stabilize to modestly strengthen, European equities may once again find themselves in the role of a laggard relative to their US counterparts.

Source: Portfolio Analysis & Consulting, Bloomberg. **Performance data shown represents past performance and is no guarantee of future results.**

Domino

Percent of Workers with Zero Wage Growth vs U-3 Unemployment Rate (12/31/99–6/30/25)



Another month and another seemingly resilient payrolls print. Despite the decline in employment observed by the ADP data, the June jobs report posted another upside surprise against a cautious consensus in a report that was headlined by a nearly 13 basis point drop in the unemployment rate. But as we've highlighted for much of this year, the details continue to point to a softer backdrop than the headline figures suggest. A broad swath of data points, including declining breadth in employment gains, weak cyclical jobs growth, and weakening expectations of job finding prospects, all suggest that slack is set to continue building in labor markets. Wage growth is yet another indicator confirming that slack that has built and will likely continue to do so until a policy response stabilizes conditions. Average hourly earnings are growing just 3.15% over the past 3 months, below the pre-pandemic average of 3.3%, while the Atlanta Fed's Wage Growth Tracker, which removes compositional distortions present in the average hourly earnings figure, has largely normalized back to the pre-pandemic range. And once again, under the headline wage data, we see signs of incremental slack. The gap between wage growth for job stayers and job switchers has collapsed, providing little incentive for workers to change jobs, particularly in a low-hiring-rate economy. And for those who remain in their jobs, the portion of workers in the Atlanta Fed's Wage Growth Tracker seeing no wage growth has pushed to new cycle highs reflective of the first lever employers pull before outright reducing headcount. While the risk of a non-linear increase in unemployment remains low, under the surface of volatile, but resilient, data, the trend remains one of decisive linear cooling. Markets and the Fed may feel comforted by resilient top-line data, but the details suggest that headline figures, like the unemployment rate, may, in fact, be understating the degree of cooling in the labor market, leaving the risk of a growth startle firmly on the table.

Source: Portfolio Analysis & Consulting. Bloomberg.

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