



Investment strategy

July 2025



"THERE IS A BEAUTY THAT REMAINS
WITH US AFTER WE'VE STOPPED
LOOKING."

CORY RICHARDS,
PHOTOGRAPHER AND EXPLORER, WEARS THE
VACHERON CONSTANTIN OVERSEAS.


VACHERON CONSTANTIN | ONE OF
GENÈVE NOT MANY.

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INTRODUCTION

Letter to Investors - Investment Climate

- Financial markets have held up fairly well amid the political chaos orchestrated by Trump
- Resistance is mounting to counter the aggressive tariff strategy
- The economic effects, still barely visible, will become more pronounced in the 2nd semester
- The Fed remains faced with a dilemma: combat inflationary risks or recession risks
- Complacency is once again very high in the equity markets
- Caution is called for in the face of considerable uncertainty

Trump's political actions, although often disruptive and generating significant volatility, have ultimately had only a moderate impact on financial markets, which have been on the rise since the beginning of the year. Despite the initial turmoil and volatility caused by his announcements, global indices have shown some resilience. The markets quickly factored in the risks and were reassured by the deadline Trump set for negotiating specific agreements on customs tariffs. The 90-day truce is now over, but a further postponement seems to confirm the new president's unpredictable policy, which also appears to be reassuring the financial markets in their relative complacency. Elsewhere, less uncertain economic fundamentals than in the United States and the absence of any direct impact of the change in customs policy on inflation helped to absorb the shocks. Central banks, by maintaining accommodative monetary policies, also played a crucial role in stabilizing investor sentiment in Europe and Switzerland in particular. Localized political turmoil in the United States did not lead to widespread contagion and, ultimately, while Trump's presidency introduced a new layer of political uncertainty, Q2 2025 was marked by fairly positive dynamics across the main asset classes, in a complex economic and political environment. Global equities continued their rebound overall, with the global index rising +11.47% in Q2. This performance was largely driven by an expansion in valuation ratios rather than strong earnings growth. US equities remained favored, although international and emerging market equities began to compete with the US in terms of expected long-term performance. Europe had outperformed in Q1 and slowed somewhat in Q2. In the international bond market, the quarter was more mixed. While the first half of 2025 was generally better than 2022 for fixed income assets, the absolute performance over six months (+7.27%) was ultimately close to that of equities. Risk premiums on longer-term government bonds remained a key factor. As for commodities, Q2 2025 was marked by sharp price fluctuations. Precious metals such as gold continued to benefit from their status as safe havens in a geopolitical context marked by rising tensions in the Middle East, which only benefited oil in June. Industrial activity, particularly manufacturing, anticipated an increase in production, which could support demand for certain base metals in the future. The aggressive increase in tariffs imposed by the United States on imports from all countries has triggered multifaceted and increasingly organized resistance. Companies, on the front line, are mobilizing their lobbies to alert governments to cost increases, loss of competitiveness, and disruptions to global supply chains. They are exploring strategies for relocation or diversification of sources to circumvent these barriers. Some are announcing their relocation, while consumers are joining the movement, expressing their dissatisfaction with rising prices for imported goods and reduced product choices on store shelves. Awareness campaigns are multiplying, relayed by the media and

social networks. On the international stage, organizations such as the WTO and the IMF deplore the escalation of protectionism and its threats to global growth. The targeted countries often respond with countermeasures, turning the disagreement into a spiral of trade tensions with negative effects that are difficult to estimate. But for now, the effects of the tariffs are not yet visible, due to the postponement of their introduction, but also because companies had anticipated this risk by making fairly massive advance imports as soon as Trump was elected. During Q2, limited 10% tariffs were applied, but were partially absorbed by companies, postponing price increases for consumers until later. When punitive tariffs are finally announced and implemented in the coming weeks, we can expect to see a rise in the prices of imported goods, followed by consumer prices putting pressure on household purchasing power, with the corollary of a slowdown in GDP growth, accentuated by the fall of around 10% in the dollar, which effectively reinforces the process by also making imports more expensive. In the immediate term, US growth will be positive in Q2 due to a mechanical effect on GDP calculations caused by the fall in imports in Q2, but the reality is very different, characterized by a decline in domestic demand, employment, and investment. The Fed therefore faces a complex dilemma. On the one hand, inflation persists, potentially requiring interest rates to remain high, and on the other, signs of an economic slowdown are multiplying, prompting consideration of rate cuts to stimulate growth. The central bank must therefore navigate between these two conflicting imperatives. Its challenge will be to assess the right moment to pivot, without risking reigniting inflation or allowing the economy to become further mired. We believe that statistics pointing to a slowdown will precede those on inflation. At the beginning of July 2025, there are several concrete signs of investor complacency, despite persistent economic and geopolitical uncertainties. The VIX (volatility index), often referred to as the "fear index," is at relatively low levels (17.20), suggesting a low perception of future risk. Put/call ratios for the S&P 500 index are also at levels suggesting low demand for protection against a potential decline. Valuations remain high, and credit spreads have remained relatively tight, reflecting the low risk premium demanded by investors to hold lower-rated corporate bonds. Positive surprises are difficult to imagine in an increasingly tense political environment. We suggest considering investment strategies that are less exposed to risky assets as uncertainty resurfaces and is likely to increase in the short term.



Alain Freymond
Associé & CEO
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BIG PICTURE

Main Convictions

- The effects of Trump's chaotic policies are yet to come
- The US economy is holding up, but is likely to succumb to mounting pressure
- The dilemma remains intact for the Federal Reserve, which will remain on hold
- Uncertainty is growing, heralding a return to volatility

The effects of Trump's chaotic policies are yet to come

The repercussions of the Trump administration's often unpredictable and "chaotic" policies, particularly evident in the commercial and international spheres, continue to be felt at the end of the second quarter of 2025. The world is still facing the weakening of multilateral relations. The "America First" doctrine has deeply eroded trust between allied governments, leading to more transactional and less collaborative diplomacy. Tensions between the United States and China, as well as with the European Union, although fluctuating, remain a source of persistent geopolitical uncertainty, as evidenced by the ongoing threats of "reciprocal" tariffs. These tensions are already provoking initial reactions from historically allied states which, without commenting too much, are already seeking trade alternatives with partners other than the United States. On the economic front, the tariffs imposed without notice in April have had and continue to have a direct impact, albeit limited to date, but they will have an increasing effect in the future, particularly when "reciprocal" or "punitive" tariffs are validated and applied. In recent weeks, inflation in the United States has ultimately been only partially fueled by this first level of import taxes (10%). The CPI rose to +2.7% in June, with notable increases in furniture, clothing, and household appliances, sectors that are more quickly affected by tariffs. Companies have often absorbed part of these costs or passed them on, thereby weighing on consumer purchasing power. Global supply chains are once again being forced into costly restructuring, adding to inefficiency, prices, and product availability. This persistent uncertainty and erosion of confidence are resulting in more hesitant consumption and business investment than might otherwise be the case. Companies are delaying expansion and hiring decisions, fearing abrupt changes in trade policy. This increases the risk of recession, beyond the situation in Q2, which was skewed by the behavior and expectations of businesses and consumers in the face of the threat of tariff increases. The labor market, although resilient, is also showing signs of slowing down, which are likely to intensify. Fiscally, the "big beautiful bill" will add several trillion dollars to the already massive US national debt, which reached approximately \$36.6 trillion in July 2025. The Treasury's financing costs have become a colossal budget item (nearly \$1 trillion for 2025), limiting the government's ability to invest or respond to potential economic shocks. In the coming months, we can expect this economic and political uncertainty to persist and have an ever-greater impact on key economic and financial variables. New tariff threats that could triple existing tariffs (10%) are already underway, and trading partners are preparing countermeasures, which will undoubtedly fuel expectations of higher US inflation, as well as a decline in consumption and investment. The risks of recession are likely to align and increase as investors once again realize that these factors will negatively impact corporate earnings growth. The Fed will continue to navigate a narrow path between fighting imported inflation and the need to support an economy whose momentum is potentially being held back by these structural and chaotic legacy factors.

The US economy is holding up, but is likely to succumb to mounting pressure

The US economy initially suffered an initial growth shock in the first quarter, but it should show a more positive performance in Q2, mainly due to mechanical and technical factors affecting GDP calculations. If consensus forecasts prove accurate, Q2 could well show an increase in value added of around +1.9%, of which +1.7% could simply be due to the fall in imports following the sharp rise in the previous quarter and the massive stockpiling by companies at the beginning of the year. This figure will clearly be misleading, as it will undoubtedly give the impression that the US economy is unaffected by the introduction of inflationary 10% tariffs or by the chaos caused by the policies implemented by the new administration. However, we are already seeing a growing weakness in household confidence and consumption. Without necessarily fearing a collapse in this momentum, we believe it is likely that we will see a contraction in household spending over the coming months, which is certainly the main threat to GDP in the second half of the year. Trump's policy is still in its early stages of implementation and will only have a negative impact on the economy once tariffs are widely applied at levels higher than the basic 10% rate. The postponement of the deadline to August 1st gives negotiators and the economy some breathing room, but we believe the shock is only being delayed. Consumption and investment are likely to decline in such an environment. The ISM and PMI indicators appear to be slightly less negative, without showing any decisive sign of a real change in trend. The ISM services index recorded its lowest level in 12 months in May, remaining below the growth threshold, while the ISM manufacturing index remains in contraction territory (49). Concerns still prevail. It seems, however, that political uncertainty is weighing on industrial activity, but also increasingly on the services sector. The consumer confidence indicator fell to its lowest level in April before recovering slightly in June, but remains well below its levels of recent years. Leading indicators are beginning to reflect the change in sentiment that is spreading throughout the economy and which, in our view, is unlikely to improve in the coming months, particularly when new tariffs affect imports and consumer prices. It is difficult to imagine an upturn in this segment, which is vital for growth, while employment is also beginning to slow. Unemployment claims (four-week average) are once again above 240,000 and close to the peak reached in 2023. In terms of job creation, ADP statistics show the first job losses since March 2023, with 33,000 jobs lost, which is even more pronounced in the service sector alone, with a contraction of 66,000 jobs. Companies have probably not yet drawn definitive conclusions about the impact of tariffs on their business and have therefore not resorted to mass layoffs. However, the US economy is deteriorating and will be hit harder in the future by countermeasures taken by other countries, which are reducing or simply cutting their imports, as seen in the fall in Chinese imports of grain and soybeans. The US economy will not be able to withstand these growing pressures in the long term and is likely to contract again.

The dilemma remains intact for the Federal Reserve, which will remain on pause

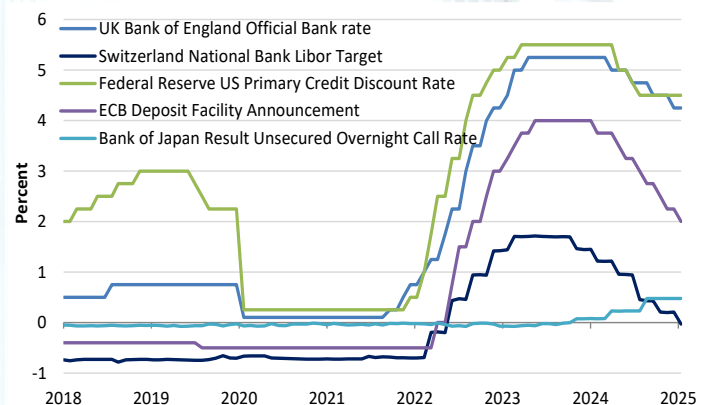
The American central bank has not touched its key interest rates since its last meeting in December 2024, during which it had announced a pause after the 0.25% cut to 4.5%. At that time, it had mentioned the risks of a rebound in inflation, potentially induced by Donald Trump's tariff policy regarding customs duties. It has not changed its position during its latest meetings, which indicated, particularly in June 2025, that it still considered the American economy to be rather resilient. The Fed is therefore still in a wait-and-see position at the start of the third quarter and will certainly not act until some clarity on this matter is obtained. The Federal Reserve still does not truly comment on the forecasted inflationary impact of the customs tariff hikes, and does not genuinely consider the risk of recession either, which is increasing, but still seems dependent on the actual implementation of the new tariffs. It also does not seem willing to seriously modify its policy of reducing the size of its balance sheet, judging by its statements and the continued observation of this trend, even though its June bond sales (-\$11 billion) were the lowest of the year and represented only a third of those in May (\$36 billion). The Fed is therefore contributing, through its sales, even reduced, to the increase in the supply of Treasury bonds, while the refinancing of maturing debt and the funding of the growing budget deficit through large new issuances is a hot topic in 2025. The adoption of the OBBBA by Congress should also represent an additional challenge to be taken into account for the Fed, which is resisting pressure from Trump, who is asking it to lower rates to ease the burden of debt. The Fed will not anticipate a possible decline in growth and will certainly not adjust its key rates without being certain that the risks of recession are greater than the inflation risks linked to customs tariffs. This wait-and-see stance could theoretically be adjusted after the publication of Q2 GDP, but given our own forecasts, it does not seem likely that the institution will change its policy at its July 30 meeting. At most, it could finally announce the end of its QT program to allow it to purchase Treasury securities again in order to act once more on the longer end of the yield curve. In the meantime, pressure is mounting for a change in leadership at the head of the Federal Reserve orchestrated by Donald Trump. Powell's term expires in May 2026, but he could remain a governor until 2028, even after the end of his presidency. But the Fed's dilemma, choosing a policy suited to reviving declining growth or one suited to a possible rebound in inflation, will not find an ideal solution even in the event of a change in chairmanship. From the markets' point of view, Trump's pressure is very damaging and undermines the institution's credibility. These pressures seem, in the current context, completely unproductive because they raise the issue of the central bank's independence, including in the case where the Fed might want to lower its key rates for valid reasons. Doubts would remain about the true motivation behind the rate cut. Would it be based on a rational and uncompromising analysis of the economic situation, in full compliance with the objectives set by its dual mandate, or would it be imposed by politics? Powell might hesitate even more when the time comes to proceed with the next rate cut, faced with this additional dilemma of acting at the risk of being perceived as obeying Trump's political orders if it happens.

Uncertainty increases and signals a return of volatility

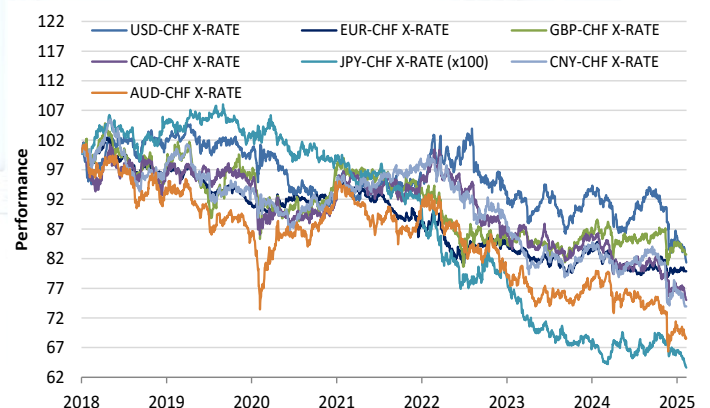
Despite the chaos orchestrated by the new American president over the past six months, financial markets have ultimately recorded significant gains in bond and real estate markets as well as equities. However, uncertainty remains extremely high to this day and could quickly increase in the event of failure in tariff negotiations. With or without an agreement on August 1st, it is likely in our view that new tariffs will apply at levels that will undoubtedly push up imported prices just as the dollar is already down by 10%. Investors seem to have ignored this factor to join the stock market rebound, which in our view appears increasingly unsupported by fundamentals in the United States. The investment climate seems extremely fragile to us given the return of stock indices to this year's highs. However, the risks appear greater today than they did in January. The season for publishing corporate results and CEO and CFO forecasts will begin in a much more uncertain environment, and is unlikely to reveal any significant opportunities for profit growth. Instead, we expect to see much more cautious messages based on the lack of economic visibility. Investor optimism seems excessive to us in this context. The VIX (volatility index), often referred to as the "fear index," is at relatively low levels (17.20), suggesting a low perception of future risk. Put/call ratios for the S&P 500 index are also at levels suggesting low demand for protection against a potential decline.

Finally, valuations remain high and credit spreads have remained relatively tight, reflecting the low risk premium demanded by investors to hold lower-rated corporate bonds. Positive surprises are difficult to imagine in an increasingly tense political environment. We suggest considering investment strategies that are less exposed to risky assets as uncertainty resurfaces and is likely to increase significantly in the short term.

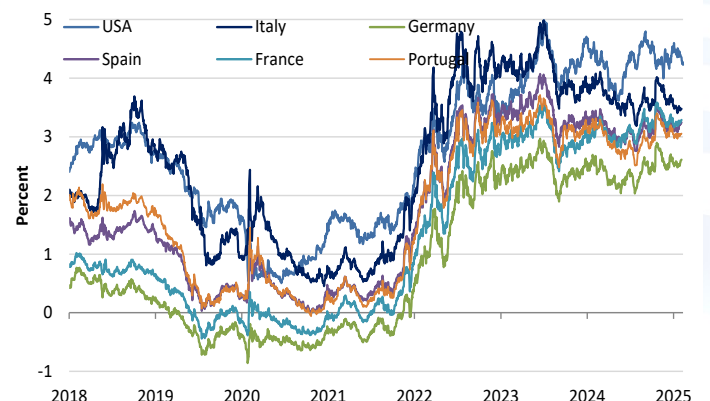
Policy rates (EUR, CHF, GBP, USD, JPY)



7 main currencies against CHF (base 100)



10-year government rates





MACROECONOMIC SCENARIO



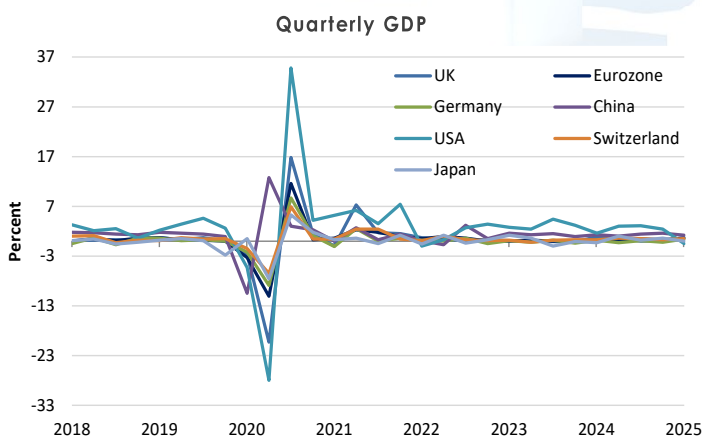
MACROECONOMIC SCENARIO

Global Outlook

- Global growth forecasts revised downward
- The economy is holding up despite the chaos caused by Trump
- Positive momentum continues in the eurozone in H2
- High risk of a slowdown in Swiss growth
- The UK economy is deteriorating month by month
- Uncertainty remains in Japan

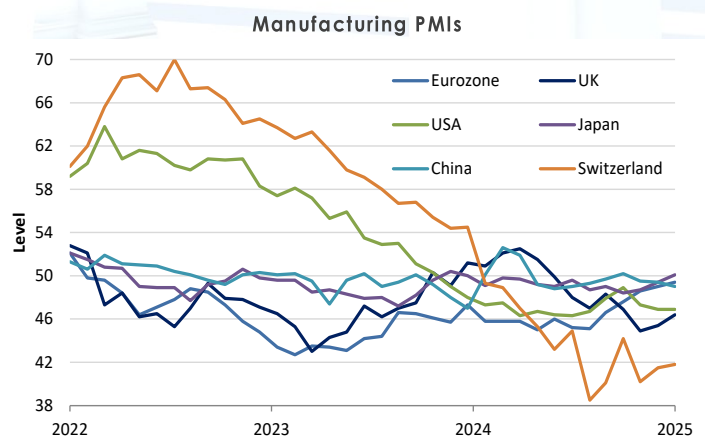
Global growth forecasts are being adjusted downward

Recent statistics on international trade reveal contrasting trends over the last three months. Overall, global trade showed slight growth in value in the first half of 2025, estimated at around \$300 billion, driven in part by higher prices for traded goods, while volumes remained virtually unchanged. US imports and EU exports were major drivers of this growth. In contrast, several developing countries saw their imports decline. The general sentiment is one of slowing trade integration and increasing uncertainty. The WTO has projected a slight decline in the volume of global merchandise trade for 2025 as a whole (-0.2%). In the short term, the outlook for international trade is clouded by persistent political uncertainty and geopolitical tensions. Slower growth in trade volumes is expected, with risks of increased fragmentation of global trade due to "de-risking" policies and the relocation of supply chains. Trade imbalances (growing US deficit, Chinese and European surpluses) are also expected to persist, potentially fueling new frictions and weighing on global growth. Global growth is expected to slow, with weaker prospects than anticipated at the beginning of the year. Major international financial institutions, such as the World Bank and the OECD, have recently lowered their projections and anticipate global growth of +2.3% for 2025, marking a sharp decline from their January forecasts. The OECD seems a little more positive and is forecasting growth of +2.9% for 2025, down from +3.3% in 2024. These estimates take into account factors such as increased trade barriers, tighter financial conditions, and political uncertainty. The risks remain on the downside.



The economy is weathering the chaos caused by Trump

The US economy appears, for now, to have weathered the massive disruptions caused by Trump since January 20, provided that second-quarter GDP figures are in line with current expectations of +1.9% to +2%. The first two quarters were mainly disrupted by the issue of tariffs and exceptional anticipation in terms of imports and stockpiling. These imports and restocking were driven by the uncertainty surrounding the new US administration's trade policy. The first two quarters were mainly disrupted by the issue of tariffs and exceptional anticipation in terms of imports and stockpiling. These anticipated imports and inventory replenishments undoubtedly helped to temporarily delay the expected impact of the introduction, in April, of 10% basic tariffs on all imports into the United States. The 90-day deadline subsequently granted by Trump to reach agreements with the United States' trading partners expired without the president being able to announce any other successes in this strategy other than an agreement with the United Kingdom and Vietnam, as well as an unclear truce with China (tariffs estimated at around 50%). However, this period has allowed the economy to avoid suffering from increased import prices for another quarter and to further delay the visible impact on consumer prices and household spending. The economy is therefore resisting the chaos for the time being, probably because the impact of the economic upheavals has not yet materialized. Trump's policy is still in its early stages of implementation and will only have a negative impact on the economy once tariffs are applied widely and at levels higher than the basic 10% rate. The postponement of the deadline to August 1 gives negotiators and the economy some breathing room, but we believe the shock has only been delayed. Consumption and investment are likely to decline in such an environment. Forecasts for the third quarter are still up by just over +0.5% and will depend mainly on changes in consumer and business confidence. We believe that the risks of contraction are nevertheless significant over the next two quarters.



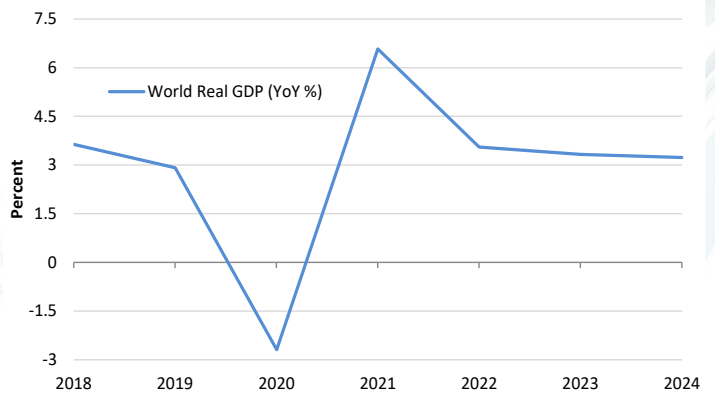
Positive momentum continues in the eurozone in H2

After a first quarter of +0.3%, most economists expect growth in the eurozone to remain moderate in Q2 2025, probably in a similar range of +0.2% to +0.4%. The European Central Bank (ECB) and the European Commission have revised their growth forecasts for 2025 as a whole downwards. The European Commission now expects +0.9% for 2025, as does the ECB. It is, in fact, difficult to imagine what positive surprises could occur in the coming months to boost growth prospects, particularly in the context of the trade war, which has remained relatively unchanged since April 2, with no prospect of improvement. After fears of prohibitive tariffs, even if an agreement on less extreme tariffs is reached, the impact will remain negative. We will therefore have to rely on a recovery in international trade outside the US with the eurozone's other economic partners to offset the shocks imposed by the US president on bilateral transactions with the eurozone, which will certainly take time. That said, certain factors in the eurozone are showing clear signs of improvement, notably the trend in inflation, which is back below 2%. The ECB's monetary policy remains resolutely accommodative and facilitates access to credit and investment. Confidence is undoubtedly a decisive factor holding back consumption and investment, but the eurozone could nevertheless surprise with a renewed surge of dynamism, particularly in Germany's industrial sector and in France thanks to a recovery in consumption. In the medium term, the structural increase in defense spending will have an impact on investment and industrial production. Nevertheless, in the short term, our forecasts for Q2 favor economic growth at the upper end of the range at +0.4%, above the still negative consensus forecast of -0.1%. Year-on-year, real GDP in the eurozone could therefore reach +1.1% in 2025, slightly better than the ECB's forecast, mainly if there is a recovery in the second half of the year.

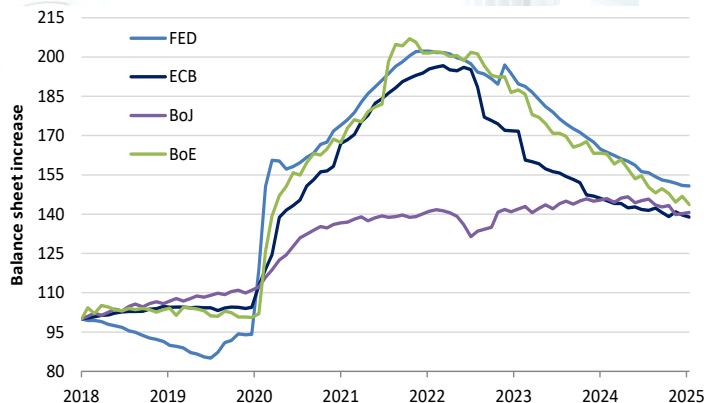
High risks of a slowdown in Swiss growth

The fact that private consumption, public consumption, and fixed investment all showed slower growth rates than in the previous quarter is a sign of an underlying imbalance in the overall economy. This indicates that domestic demand, which is generally a stable and fundamental driver of the Swiss economy, has lost momentum. As a result, the significant acceleration in overall GDP must be attributed mainly to the external sector, particularly the strong performance of exports, even though import growth was even stronger, resulting in a negative net contribution. This suggests that the strength of first-quarter growth is not widespread across all components of demand, raising questions about its sustainability should external drivers weaken, as is likely to be the case. The rise in exports in Q1 was driven by accelerated shipments to the United States ahead of tariffs. A significant portion of the strength in exports in the first quarter will not be repeated in Q2. While Q1 growth appeared strong, its quality is mixed and its sustainability is contingent on volatile external factors, notably US trade policy. The risk of a slowdown in exports once the anticipation effect has dissipated, combined with lackluster domestic demand and a labor market under pressure, makes the outlook for the rest of 2025 uncertain. Our outlook for Q2 is based on a decline in external demand and continued domestic weakness. Despite the SNB's accommodative policy, low-interest financing is not stimulating consumption. Our forecasts suggest a slight contraction in Swiss GDP in Q2, which could well continue into the summer. Over the year as a whole, the Swiss economy's value added could grow by +1%.

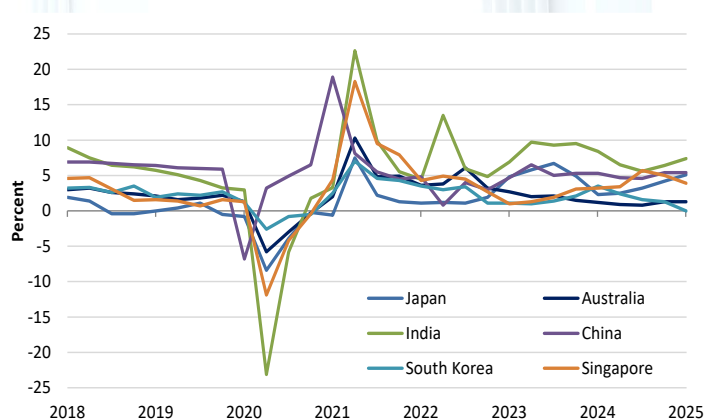
Croissance réelle de l'économie mondiale



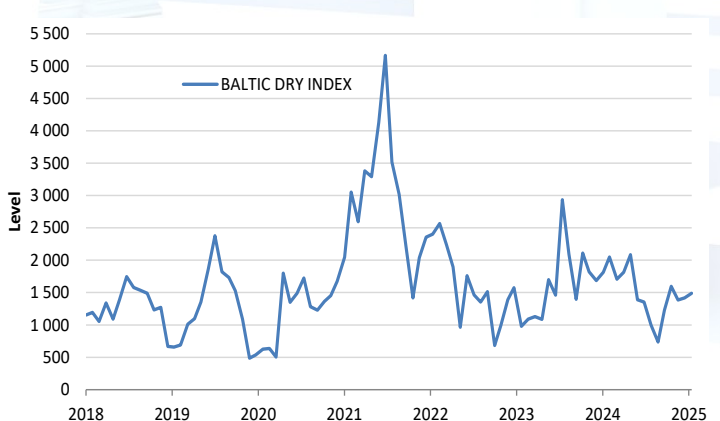
Liquidité mondiale



Taux de croissance des économies asiatiques (PIB)



Baltic Dry Index



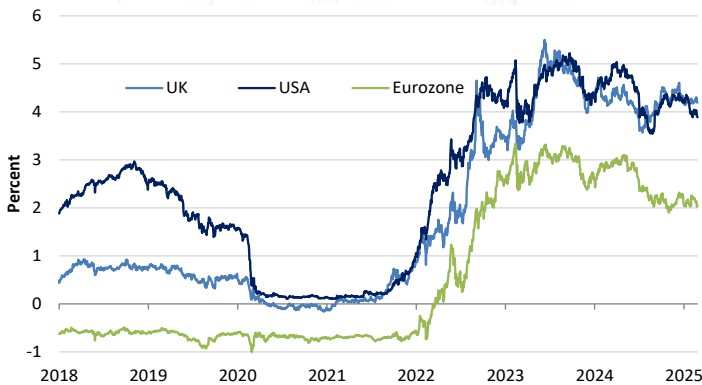
The UK economy is deteriorating month by month

The first figures published in the United Kingdom for GDP growth in April are rather mixed. Monthly GDP fell by 0.3% compared to March 2025, marking the first decline in six months and the sharpest drop since October 2023. This decline was mainly due to a contraction in the services sector (-0.4%) and manufacturing (-0.6%), although construction increased by +0.9% in April. This contraction in April, followed by another negative result in May (-0.1%), suggests that the strong momentum of the first quarter may not be sustained as strongly in the second quarter, and that the economy may face headwinds. Although the first quarter was strong, the outlook for the coming months now appears much more mixed due to several factors. Inflation in the UK remains a concern, however. The CPI inflation rate rebounded recently to 3.5% in April 2025 and is expected to remain above 3% for most of 2025, mainly due to increases in regulated prices (such as water bills). This could prompt the Bank of England to take a cautious approach to monetary easing, limiting interest rate cuts. Higher wages and companies trying to protect their margins may also put upward pressure on inflation. The increase in employers' national insurance contributions, the reduction in the secondary threshold, and the rise in the living wage in April 2025 have significantly increased labor costs for businesses, particularly in sectors such as hospitality and retail. This could dampen business investment and employment. Household consumption is expected to gradually recover, mainly due to the increase in real household income and the improvement in the debt-to-income ratio. GDP growth forecasts are more uncertain and more closely linked than usual to international rather than domestic factors. The evolution of Trump's tariff policy in the United States, despite the agreement reached with the United Kingdom, will have other effects and will also affect the British economy. In 2025, the British economy is expected to continue on a rather moderate growth path of +1.1%, without ruling out the ever-present risk of contagion from a possible recession in the United States.

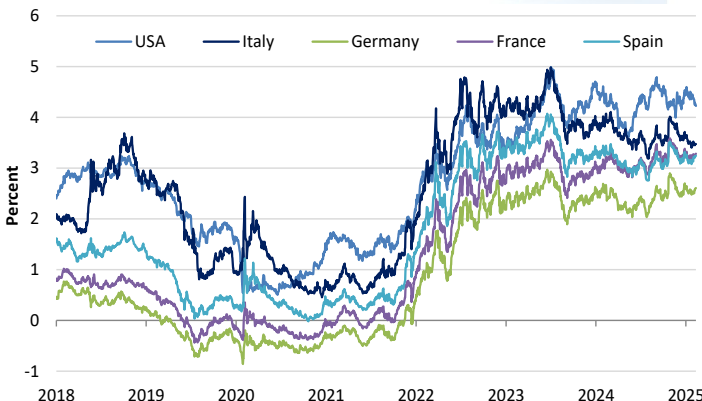
Uncertainty remains in Japan

The surprise contraction in Q1, while the potential effects of tariff increases are not yet really observable, casts doubt on the growth outlook for the second quarter. Private consumption, although stagnant in Q1, is expected to remain weak despite stable employment and wage growth. Real wages are expected to continue to fall in Q2 due to rising prices, and household spending is likely to remain subdued, as it was in April. Consumer sentiment remains gloomy. The sustainability of this recovery depends critically on positive real wage stability, which is not expected before the end of 2025. This makes consumer confidence and spending highly vulnerable in the meantime. If real wages remain negative or stable, any rebound in consumption in Q2 could be temporary or due to other factors (e.g., pent-up demand, one-off events) rather than a fundamental improvement in household purchasing power. This suggests that the current economic recovery lacks a strong, self-sustaining domestic driver. Over the coming months, consumption will struggle to sustain the economy, which remains susceptible to "sliding into recession," making the trajectory of real wages a key indicator for future stability. Business investment is expected to continue its robust acceleration, driven by growth in R&D, decarbonization, and digital investments. Public investment is also expected to increase, stimulated by infrastructure projects. That said, previous fiscal stimulus measures have shown diminishing returns, and sustained growth would require momentum driven by the private sector. Net exports are expected to remain a drag on growth in Q2, due to weaker global demand and the recent appreciation of the yen, which is putting pressure on export competitiveness. Exports are likely to remain sluggish amid trade tensions led by the US. We believe that external factors will weigh on GDP in Q2, which could nevertheless show a very slight temporary recovery before weakening again in Q3.

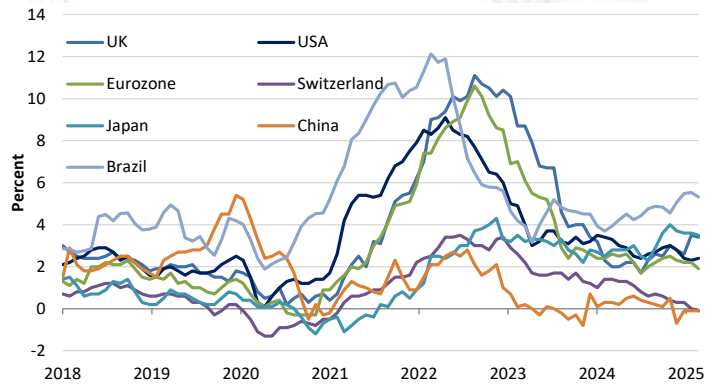
2-year government rates



10-year government rates



Inflation - CPI indices



Inflation - PPI indices

