



# OUTLOOK

## 2H 2025

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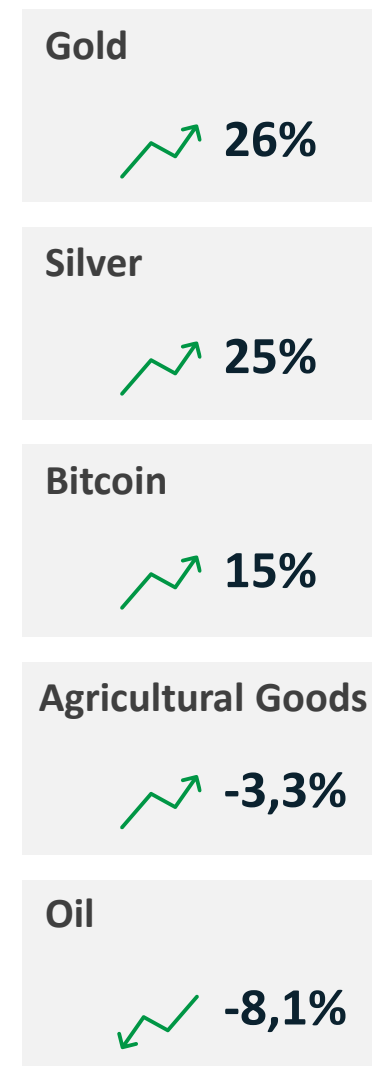
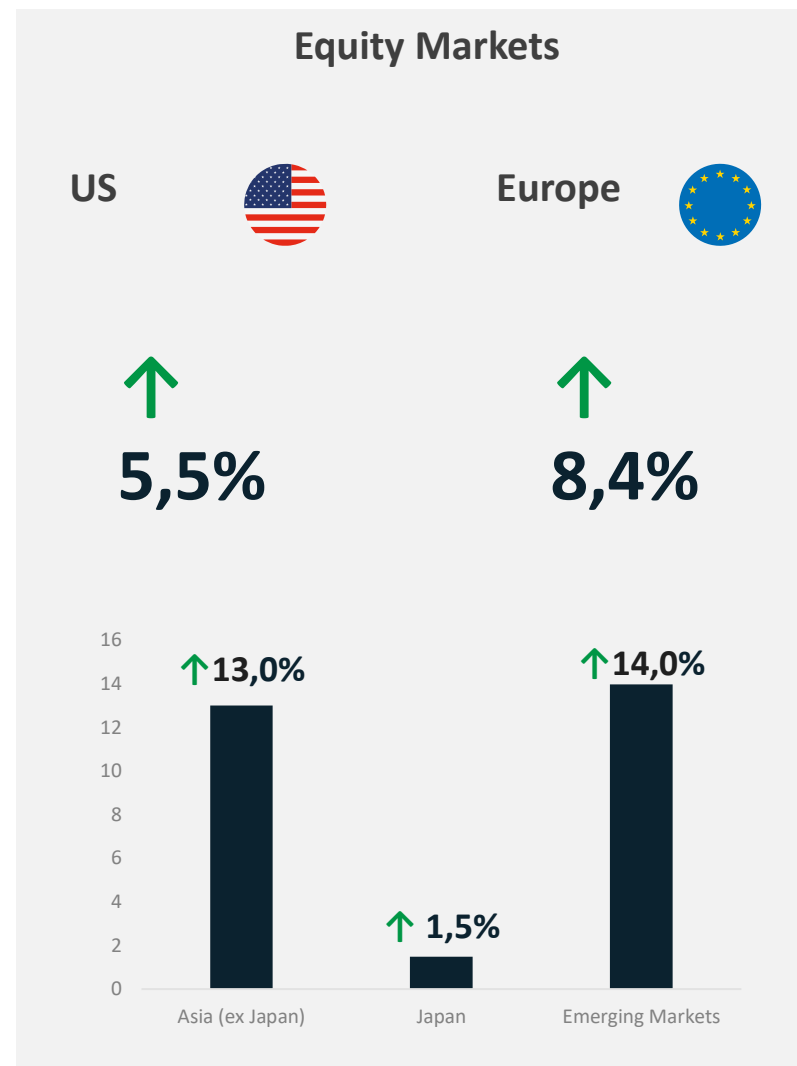
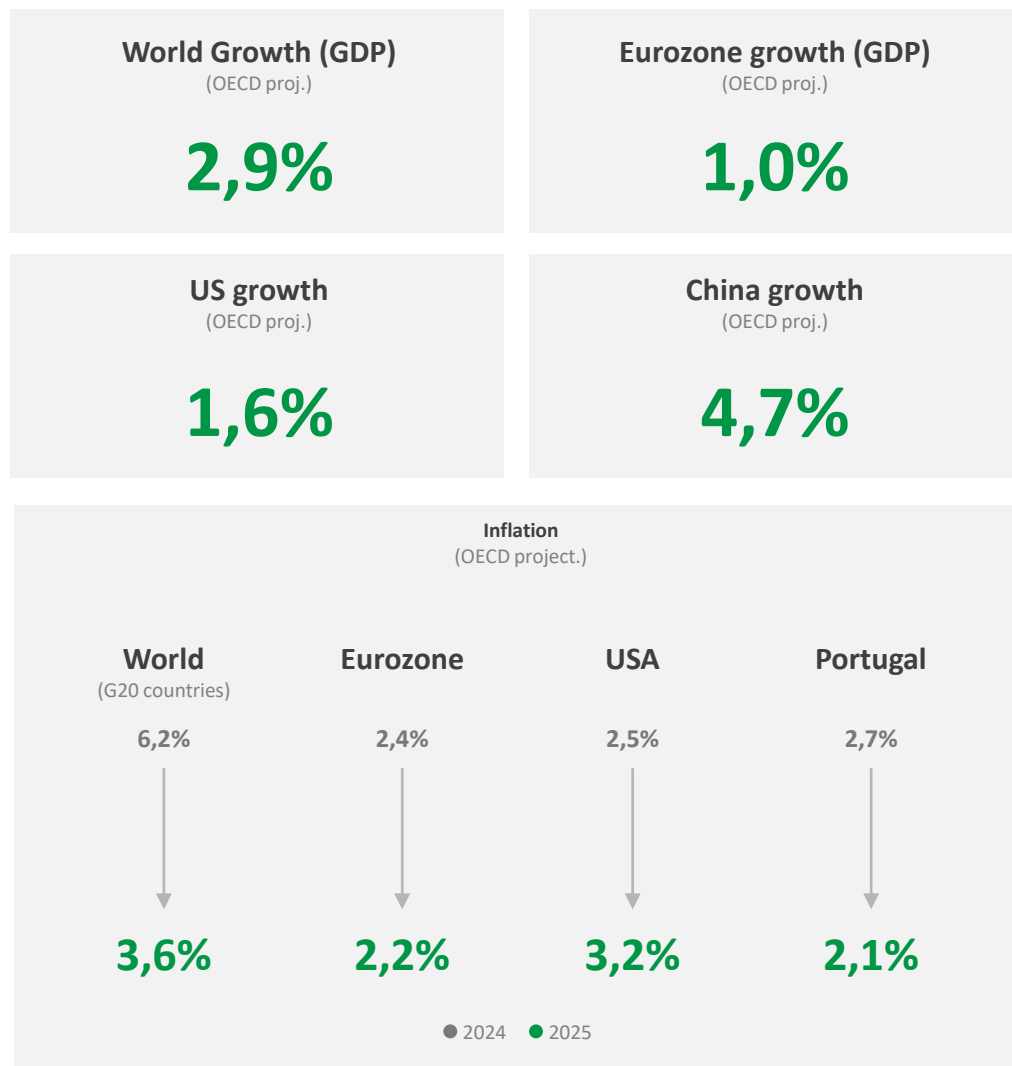
# 1 / 1H2025@Glance

## 2 / Economic Framework

- Economic Activity
- Inflation
- Economic Policy
- Main Risks

## 3 / Investment Outlook<sup>4</sup> / Global Asset Allocation

- Public Debt
- Corporate Debt
- Equity Markets
- Alternatives



## Main Events in the 1st Half of 2025



### The trade tariffs semester...

The first half of the year was marked by **high levels of volatility and increased risks of a slowdown** in the pace of activity, largely induced by the **policies of the new Trump administration**.

The initial expectation was that the pace of economic growth in the world's main economies would slow to a level closer to potential. Nevertheless, the economic cycle was expected to be supported by resilient fundamentals, such as the strength of families and companies balance sheets in most developed economies, by still robust levels of real disposable income growth, and by the impetus related to central bank rate cuts and more expansionary fiscal policies in some countries.

However, the dominant theme of the first half of 2025 was the **impact of the Trump administration's policies and rhetoric**. Since the start of his second term, Donald Trump has signed a record number of executive orders, ranging from reversing the measures/policies of the previous administration to imposing trade tariffs.

Trade policy has received special attention from economic agents and investors, given the erratic and aggressive rhetoric. The "reciprocal" tariffs, announced on the 2nd of April, were much more aggressive than anticipated, but their implementation was subsequently postponed to the 9th of July, leaving a universal tariff of 10% in place for most countries, in addition to the sectorial tariffs. This process had immediate consequences, with confidence indices falling and economic agents adjusting their behavior, trying to anticipate the implementation of commercial tariffs. This anticipation led to a very significant increase in imports into the US and exports from the rest of the world, impacting GDP in the 1st quarter.

Among the most developed economies, it stands out the 0,5% drop in the US 1Q GDP, impacted by a very significant increase in the trade deficit, and the strong growth in the Eurozone and the UK. China's GDP growth of 1,2% in the 1Q of 2025 was a positive surprise, impacted by the private consumption performance, the exports growth and the increase in the non-residential investment.

## Main Events of the 1st Half of 2025



### ... And fiscal stimulus

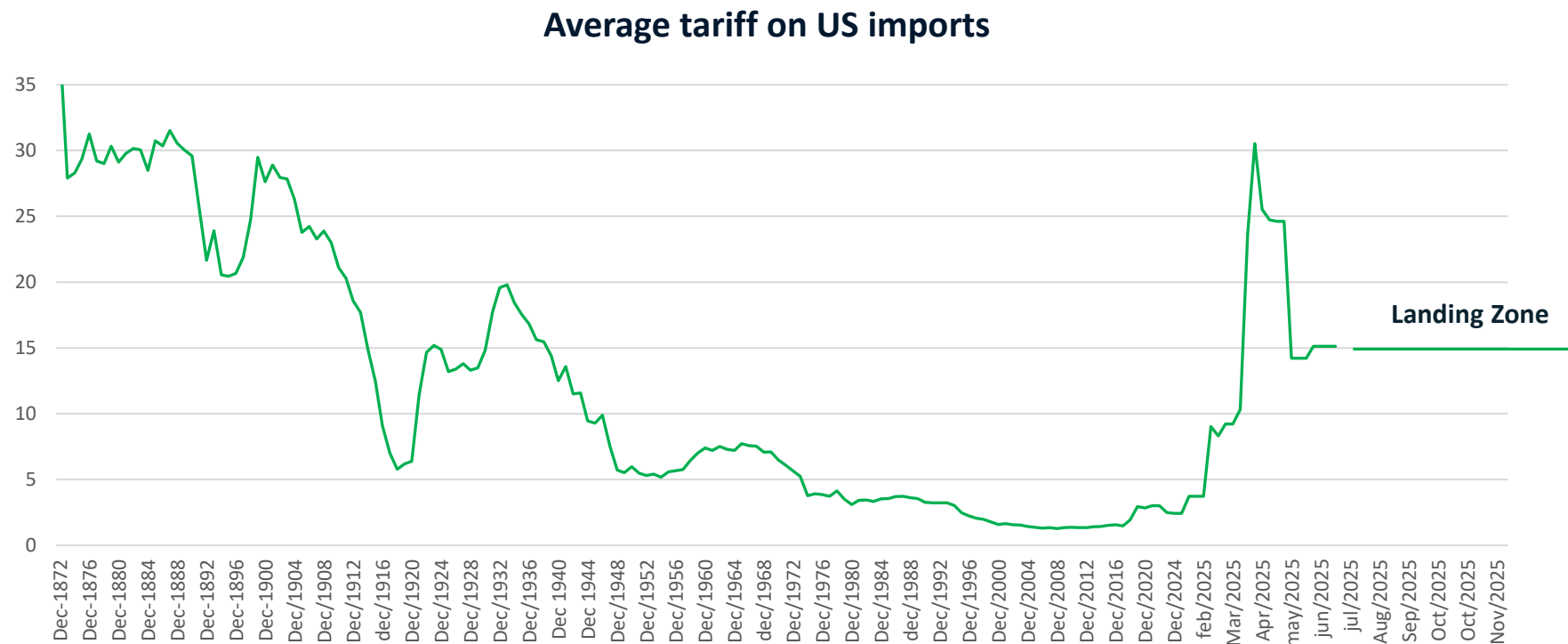
The global impacts of the Trump administration policies were not limited to the trade tariffs. **The adverse stance taken against the European Union (EU) in the geopolitical sphere**, with the US distancing itself in matters such as the military support to Ukraine, had significant implications for the region.

First and foremost, in Germany, where a few days after the CDU victory in the February 23rd elections, progress was made on easing the debt brake and on **a 500 billion infrastructure investment fund (around 11% of GDP) and a substantial increase in defense spending**.

In addition, the **EU ReArm initiative** was also launched, which among other measures offers financial assistance for defense spending and allows the activation of the escape clause, a relaxation mechanism that provides for a temporary deviation from the rules of budgetary discipline to accommodate increases in defense spending by the union member states.

In short, the expectation of greater fiscal impetus in the region and investment/revitalization of the competitiveness of the German economy has led to a more benign macroeconomic outlook for the euro area, albeit mostly for a medium-term perspective.

## Main Events of the 1st Half of 2025



The average tariff on US imports has risen sharply due to the trade policy of President Trump, who has decided to impose "reciprocal" and sectorial tariffs on his trading partners. This process has gone back and forth, and has led to the anticipation of large-scale US imports, which resulted in a significant increase in the US trade deficit and impacted on the activity data of several economies in the 1st half of the year. This anticipation should, at least in part, be reversed in the rest of the year. The implementation of the "reciprocal" tariffs is currently suspended to give time for trade agreements negotiations. This suspension, which led to the implementation of a "universal tariff" of 10%, has a time limit, however, after which the "reciprocal" tariffs, or those negotiated in the meantime, should come into force. It seems almost certain that this will happen in 2025, impacting the level of economic activity and inflation.

## Main Events of the 1st Half of 2025



### Geopolitical tensions

The war in Ukraine and in the Gaza Strip continue without significant progress towards a resolution. In the meantime, there was also an **escalation of tension with Iran**, whose nuclear facilities were bombed by Israel and the US. Although Iran replied, the fact that these attacks were directed at specific targets and did not cause major human casualties, quickly led to a stabilization of the situation, which in the end did not significantly impact the financial markets.



### Inflation normalization

Global inflation remained on a downward trajectory throughout the first half of 2025, although in the case of the main developed economies it was still at levels close or above the central banks' target.

After some upward pressure on inflation at the turn of the year, US inflation resumed its downward trend in the following months, with year-on-year inflation standing at 2,4% in May and services inflation at 3,4%.

European inflation confirmed expectations of a setback, with total inflation slowing from 2,4% to 2% year-on-year in May. Although core inflation is still above the central bank target, it also decreased from 2,7% to 2,3% over the same period. Services inflation remains too high (3,3%), although it has also been on a downward path since the end of 2024 (4,0%).



# Main Events of the 1st Half of 2025



## Central Banks

The disinflation process in the euro area contributed to the **European Central Bank (ECB) active stance**, which accumulated cuts of 100 basis points (bp) in its key interest rate to 2% in June.

The modest inflation profile justified pronounced cuts by other central banks, including the Danish Central Bank 100 bp cut and the Swiss Central Bank 50bp cut, to 1,6% and 0%, respectively. Despite the still excessive levels of inflation, the Bank of England (BOE) also cut its key interest rates by 50 bp.

**The US Federal Reserve kept its reference rate unchanged** at 4,5%, given inflationary fears stemming from the impact of tariffs and the devaluation of the dollar, and the still resilient profile of most activity indicators.

In a different path is the **Bank of Japan which raised its key interest rate again**, following evidence of strengthening inflationary pressures, although these dynamics are still, at least partly, related to the depreciation of the yen.



## Equity markets

The highlight was the **underperformance of the US market compared to other geographies**, namely Europe and emerging markets.

Impacting the US market was the macroeconomic environment, particularly affected by the Trump administration policies and the emergence of potentially disruptive forces such as the Deepseek in China, which put the valuations of some technology companies at risk. At a sector level, the performance of the communications, financial, industrial and utilities sectors should be emphasized. On the downside, the consumer discretionary and health care sectors should be mentioned, the latter impacted by the promised sectorial tariffs.

In Europe, the pan-European index rose by more than 8%, driven by the German, Italian and Spanish markets. In terms of market capitalization, it was the small and midcaps that stood out, while in terms of sectors, the performance of the communications, financial and industrial sectors should be highlighted.

## Main Events of the 1st Half of 2025

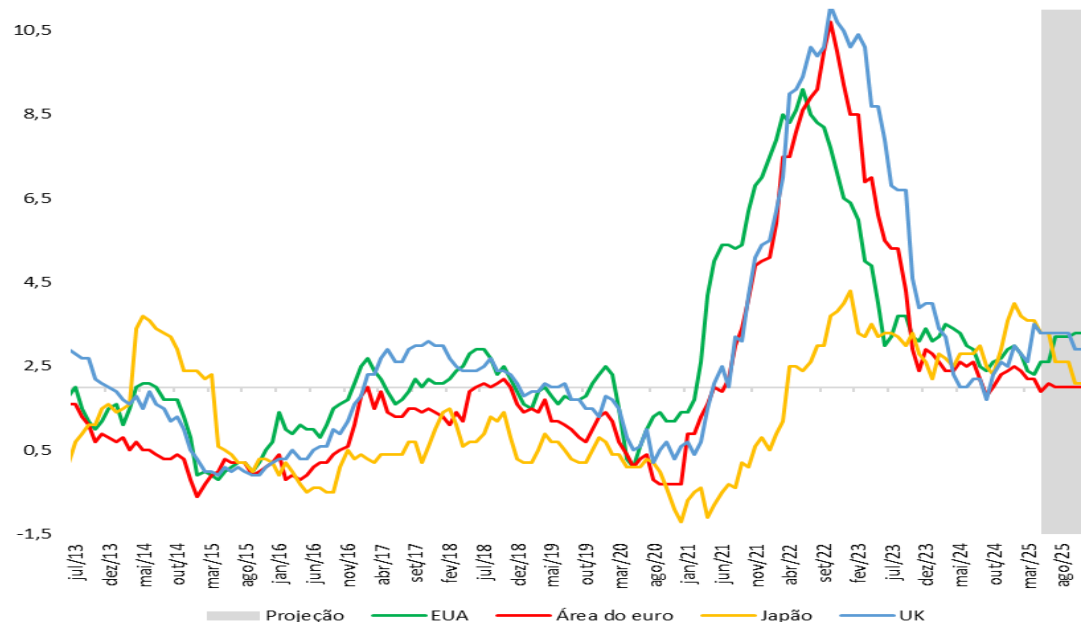


### Commodities

Commodities were also in the spotlight. Precious metals rose by more than 20%, benefiting from geopolitical instability and the diversification of reserves by Central Banks. Industrial metals should also be positively highlighted. On the downside, agricultural goods and the energy segment stood out.

# Main Events of the 1st Half of 2025

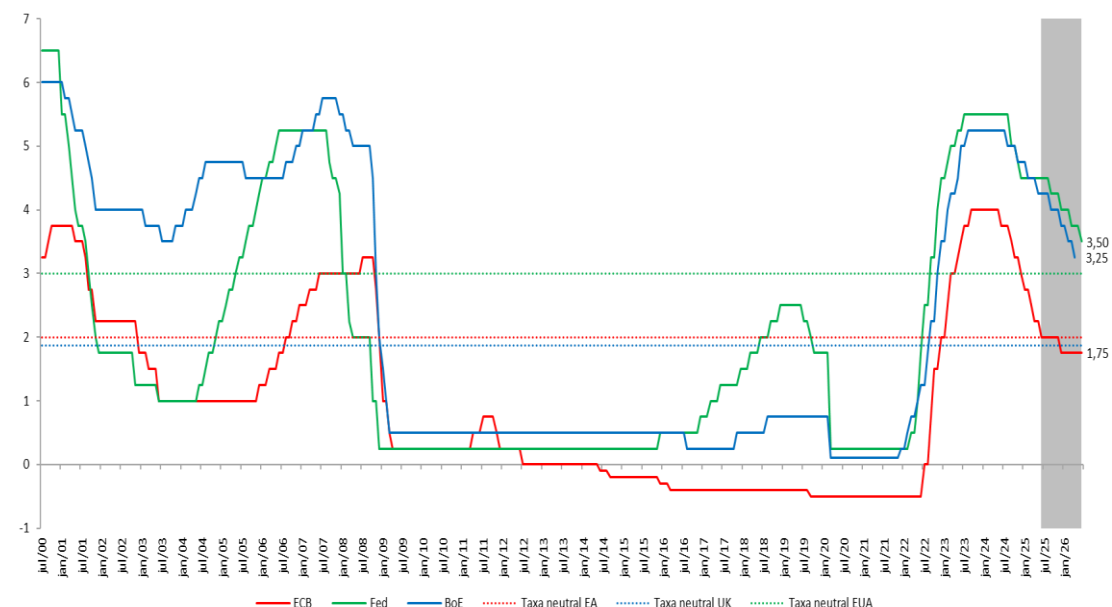
## Inflation (vh%)



In the first half of 2025, inflation continued its normalization process, but the reality is quite different depending on the country. The Eurozone inflation is already at target, in the US and UK it should increase in the next half year, while in Japan it should decreased.

Source: Eurostat, BLS, ONS, Statistics Bureau, Bloomberg consensus projections

## Central Bank Key Rates (%)



Despite the projected rate cuts, only the European Central Bank (ECB) is expected to fully converge to a neutral rate level by 2025.

Source: Fed, ECB, Bank of England; Bloomberg

**1** / 1H2025@Glance

**2** / **Economic Framework**

- Economic Activity
- Inflation
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**3** / Investment Outlook **4** / **Global Asset Allocation**

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## Key Issues for the 2nd Half of 2025



### Economic activity

World GDP is now estimated to grow at 2,7% in 2025, somewhat lower than what was expected at the start of the year, which essentially reflects the **downward revisions in developed countries**. This evolution reflects the impact of the Trump administration political choices, which have increased the uncertainty of economic projections and the likelihood of a recession in several geographies.

Currently, household balance sheets remain robust, the labor market is solid, which translates into increases in real disposable income, and consumer confidence is recovering. These factors should support private consumption going forward. At the company level, profit margins remain resilient but may come under some pressure by the end of the year.

The interest rate cuts made during the first half of the year, and others yet to be implemented, as well as the expansionary fiscal policies (China, USA, UK, Japan...), are among the main drivers of the positive projections for the second half of the year.

Regarding the impact of the Trump Administration policies, there are **two main scenarios going forward**:

1. **Damage to the economy is inevitable** due to trade tariffs, impacts on supply chains, channel of uncertainty and confidence of economic agents, leading to downward revisions of growth estimates.
2. **The focus changes to winning the mid-term elections** in 2026. The economy will be stimulated (deregulation and even some tariffs reduction in prospect), having a positive impact on the level of activity.

The **major uncertainty remains the tariffs level** that will be implemented, both by the US and its trading partners in response to them, and the repercussions of tariffs in terms of uncertainty, sentiment, impact on profit margins, disposable income, and, consequently, on growth and inflation.

## Key Issues for the 2nd Half of 2025



### Economic activity

Major uncertainty is in the propensity of:

- **Households** - to continue consuming if it is the consumer who suffers the passthrough of tariffs
- **Companies** - to maintain investment and employment despite lower margins and profits, if they absorb a large part of the tariffs.

The indication given by companies is that they intend to pass on the increases in costs to the consumers, but this will ultimately depend on the level of economic activity and on the competitive pressures.

Currently, **growth in the US is expected to slow to 1,5% in 2025**, with most of the main components slowing down. In the **Eurozone, the United Kingdom and Japan, growth is expected to increase to 1%, 1,1% and 0,8%**, respectively, driven by private consumption and investment. **In China, growth is expected to be lower than in 2024, but still above 4,5%**. Structural weaknesses and the impact of tariffs should be partially reversed by domestic policies to support private consumption and investment, with the property component continuing its downward trajectory.

## Key Issues for the 2nd Half of 2025



### Inflation

Inflation will have a **different trajectory** for the rest of the year depending on the **geography**. It should be higher in the US and lower than desired in the Eurozone and China.

**In the US, inflation is expected to rise** in the second half of the year, impacted not only by the contagion **of trade tariffs**, but also by the inflationary impulse resulting from the **depreciation of the dollar**. On the other hand, the fall in energy commodities and in services inflation can cancel out part of the acceleration projected for the US inflation.

In the Eurozone, inflation is expected to fall below the ECB 2% target. The main drivers will be the impact of **trade tariffs**, the fall in the price of energy commodities, the appreciation of the euro and the slowdown in **wage growth**. An indirect impact of the trade tariffs to be applied by the US, is the possible **dumping of Chinese exports to Europe**.

## Key Issues for the 2nd Half of 2025



### Economic Policy

Central banks will likely remain less coordinated in 2025 than in previous years, as a result of differing economic and inflation trajectories. **The global trend will be for interest rates to be cut, but countries such as Japan are likely to adjust their interest rates upwards.**

The Federal Reserve is likely to maintain **a cautious stance**, although it is still in restrictive territory. Currently, it is **concerned about the foreseeable rise in inflation in the coming months**, in a context in which the labour market is likely to remain resilient. The easing of concerns **at the end of the semester** could allow the key interest rate to be cut.

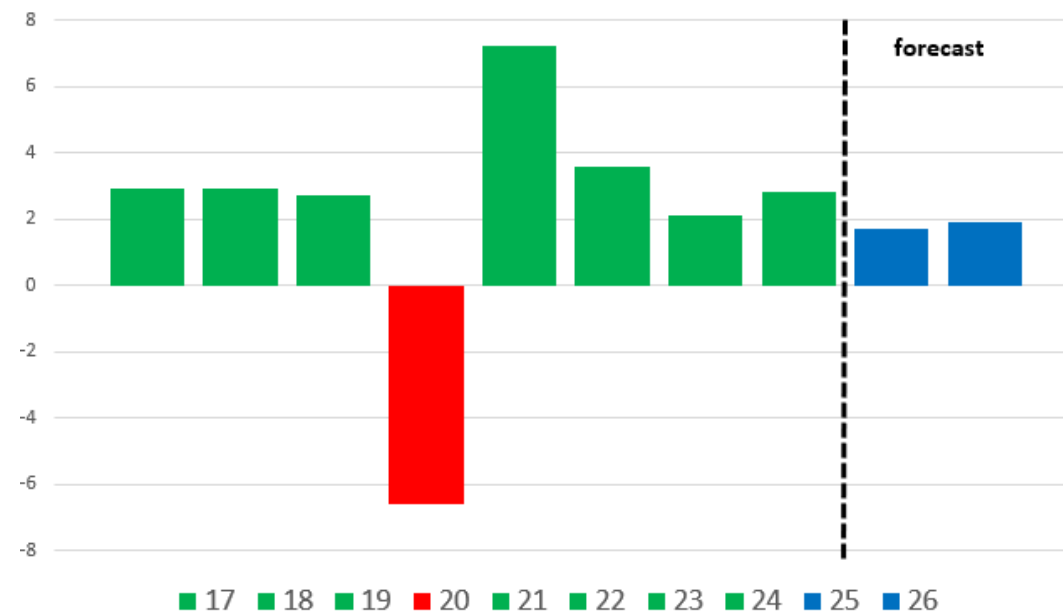
The ECB should cut interest rates **once again in 2025**, given that inflation is expected to fall below the 2% target and growth is expected to remain moderated. Currently, it is in a comfortable position given that interest rates are in **neutral territory** and it has **the flexibility** to react to a uncertain macroeconomic context.



## Portugal's economy continues to stand out on the European scene

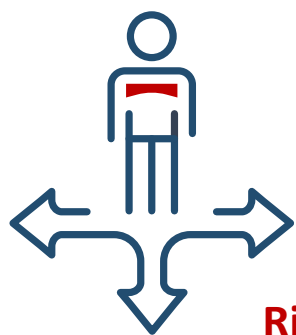
- After growing 1,9% in 2024, a marginal slowdown is expected in 2025 and growth close to 2% in 2026. **However, Portugal will continue to grow above the euro area average.**
- The 0,5% drop in GDP in the 1st quarter, came after a strong quarter at the end of 2024 (1,4%), and it was due to the fall in private consumption and investment. A recovery is expected in the 2nd quarter.
- **Private consumption will remain the main driver of growth**, fuelled by growth in real disposable income and expansionary fiscal policy.
- **Growth will be more supported by public investment**, compared to 2024, due to the boost from European funds.
- **Portugal will likely experience a slowdown in tourism growth**, while exports of goods will likely be affected (directly or indirectly) by US tariffs.
- A **zero or marginally negative budget balance** is forecasted for 2025, and a deterioration to around 1% in 2026 and 2027. Even so, the downward trend in public debt is projected to continue, from 95% in 2024 to 91% and 88% in 2025 and 2026, respectively.

Portugal - Real GDP growth (vh%)



## Key Issues for the 2nd Half of 2025

### Main Risks for the 2nd half of 2025:



#### Risks

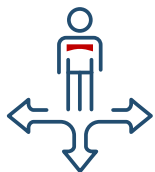
- Trade war
- Increased debt supply
- Geopolitical risks



#### Opportunities

- Trade agreements
- More limited increases in inflation
- Economic boost from the US budget and deregulation
- Economic stimulus in Europe and China

## Key Issues for the 2nd Half of 2025



### Main **risks** for the 2nd half of 2025:

#### Trade war

After a first half of the year with many advances and setbacks in the management of this issue, it is expected, in the coming months, **a stabilization of the average tariff**, although the level at which this will occur is still unclear.

Reciprocal tariffs should be defined soon, and new sectorial tariffs should be announced at a later date.

#### Increased debt supply

Expansionary fiscal policies in the US, China, Japan and Europe are increasing the pressure on government debt issuance.

This scenario could lead to the markets being unable to absorb this increased supply in a smooth way, raising the financing costs of these economies.

#### Geopolitical risks

The current geopolitical conflicts, **particularly in Ukraine, the Gaza Strip and Iran**, have had little impact, but their deterioration could lead to a change in this situation. The main concerns are the impact on the economic agents confidence, the commodities price and the supply chains.

## Key Issues for the 2nd Half of 2025



### Main Opportunities for the 2nd Half of 2025:

#### Trade agreements

The chance of the US setting trade agreements with several countries would not only normalize geopolitical and trade relationships but would also have a positive impact on the economic agents' confidence. The impacts at a geographical level will depend on the agreement reached and the dependence of the trade relationship. However, agreements have not been easy to reach. So far, only trade agreements with the UK and Vietnam have been announced, and some details are still pending.

#### More limited increases in inflation

Falling energy costs, moderating services inflation and greater than expected absorption of rising costs by companies could limit the increase in the US inflation and lead the Federal Reserve to cut interest rates sooner than anticipated.

#### Economic boost from the US budget and deregulation

Tax cuts planned in the US budget and the announcement of deregulation measures could boost economic activity.

#### Economic stimulus in Europe and China

Budget stimulus in Europe, particularly related to infrastructure and defense investments, along with the deregulation agenda in some countries, and fiscal and monetary policies in China aimed at stabilising the property market and boosting domestic demand, could have a more significant economic impact than anticipated.

**1** / 1H2025@Glance

**2** / Economic Framework

- Economic Activity
- Inflation
- Economic Policy
- Main Risks

**3** / Investment Outlook **4** / Global Asset Allocation

- Public Debt
- Corporate Debt
- Equity Markets
- Alternatives

## Markets

### Public Debt

The European Central Bank (ECB) is expected to cut interest rates once again by the end of the year, given that inflation will be close to 2% and the core will be converging towards the target. In this context, the **short end of the eurozone government curve should remain relatively anchored.**

On the other hand, an **increase in government debt supply**, in order to finance more expansionary budgets, **could put pressure on risk premiums.**

**Government spreads should continue to narrow overall**, although there may be some exceptions, such as France, where political instability and fiscal weakness could even lead to a widening.

The Federal Reserve is expected to cut the key interest rate twice by the end of the year, in line with the market and analysts' consensus, which will probably result in **stable interest rates for the shorter maturities.**

**Longer maturities should, however, continue their upward trend**, due to fiscal deficits, debt levels and the **rise in the term premium.**

This scenario will be jeopardized if inflation doesn't rise as much as feared and economic growth is more negatively impacted by the Trump administration's policies, leading to more significant cuts in interest rates by the Federal Reserve. The term premium could be positively impacted if trade agreements include the financing of the US treasury, or if the banking deregulation evolves to allow banks to invest more in treasuries.

## Markets

### Corporate Debt

Demand for credit should continue as **yields are historically at attractive levels** and the fall in short-term interest rates reduces the attractiveness of money market products, leading to a transfer of flows to credit products.

**Although credit spreads are narrowing**, the appetite for this class, the normalization of default rates and the solid fundamentals of companies should allow them to remain broadly stable, with no significant narrowing expected.

One of the risks to monitor will be **how the companies manage the impact of the tariffs**, namely whether they manage to pass on these increased costs to their customers or whether they have to absorb them penalizing their margin and results.

The credit returns should mostly come from its income component, as we do not expect much volatility in interest rates and spreads.

**The banking sector should remain resilient**, due to solid capitalization levels and robust credit metrics, reinforcing a positive outlook for the segment.

**We remain comfortable investing in high yield**, especially in Europe, because the class has a relatively low duration and credit risk should not materialize in a context where monetary policy is already at a neutral level and fiscal policy will be more expansionary.

**We also favor local currency emerging market debt**, given that several emerging countries are cutting their interest rates and their currencies are appreciating against the dollar.

## Markets

### Equity Markets

Equity markets are expected to present positive returns in the second half of 2025, being mainly driven by the **corporate results growth**, since **we do not anticipate an expansion in multiples**, and there may even be a reversal of these, particularly in the US.

The implementation of Donald Trump's economic agenda has had a negative impact on corporate earnings growth estimates for this year, which should stabilise in the second half of the year, with greater visibility on economic policies.

**Mergers and acquisitions are expected to increase, benefiting from deregulation** and proving to be a positive catalyst for the class.

The **divergence in valuations between the US equity markets and the others leads us to favor the latter**, in a context in which they are implementing expansionary fiscal and monetary policies. Nevertheless, earnings growth will remain robust in the US.

**Themes like Artificial Intelligence, Defense and European Small Caps** should continue to benefit from inflows, boosting their performance.

Inflationary risks and the environment of high interest rates for longer in the US could restrict the Federal Reserve cuts, which, along with the risks of disappointment in earnings growth, **could limit the upside of the class**.



## Markets

### Alternatives

In a context in which Eurozone interest rates are already at neutral levels, being no longer that interesting, particularly when compared to inflation, **the alternatives universe is a good option for generating alpha for the portfolios** since it diversifies the risk and return sources, while allowing investors to set the desire risk level.

In the **absolute return funds** component, there are a wide variety of strategies which, in general, benefit from uncertain contexts and return dispersion, be it between geographies, sectors or specific assets. The global uncertainty we are currently experiencing, mainly induced by the Trump administration's policies and geopolitical issues, is one of those contexts that should benefit them.

Commodities are another segment we favor, particularly the precious metals component.

**Our preference is for gold**, as geopolitical conflicts, the global polarization we are witnessing and the diversification of reserves by central banks, should keep gold on an upward trend.

**The outlook for oil isn't as encouraging**, since Donald Trump's policy stand for an increase in US production and OPEC+ has been increasing its output, putting pressure on the price of this commodity.

**1** / 1H2025@Glance

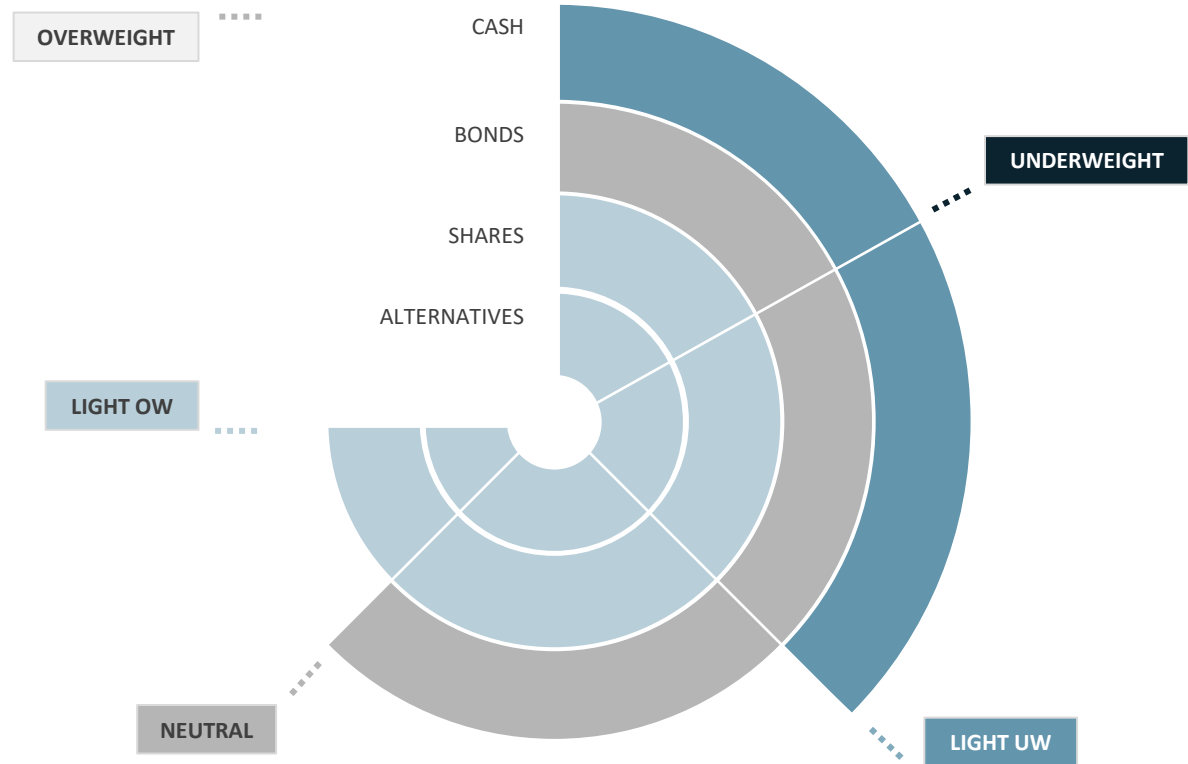
**2** / Economic Framework

- Economic Activity
- Inflation
- Economic Policy
- Main Risks

**3** / Investment Outlook **4** / Global Asset Allocation

- Public Debt
- Corporate Debt
- Equity Markets
- Alternatives

	UW	LIGHT UW	NEUTRAL	LIGHT OW	OW
CASH					
BONDS					
SHARE					
ALTERNATIVES					





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