iFlow

2025 OUTLOOK

Getting the Balance Right

LOOKING AHEAD TO 2025

As we step into the new year, we continue to reflect on the key trends that affected investors throughout 2024.

These takeaways from what was a very dynamic year for the global economy influence how we identify emerging themes for 2025, and what investors need to be aware of going forward. BNY's iFlow data – which covers $50 trillion in daily global asset flows, roughly 20% of the world's public securities – is categorized into FX, equities, and fixed income to reveal daily holdings, flows and shorts. Through this unique data, we can see some of the reactions from last year, which inform the topics we are focusing on in 2025, including

01 INVESTOR TRENDS

Our View:

BNY's iFlow data highlighted the exceptionalism of the US economy in 2024. However, based on the latest data we believe there will be a trend reversal in 2025. The range of stock and bond movements last year was noteworthy, with volatility both more episodic and higher than in 2023. Sizeable declines in both US equity and bond flows were linked to the odds of the Federal Reserve easing. The market priced in six cuts at the start of 2024, before moving close to zero during the summer. Ultimately, the FOMC delivered 1% by year-end, helping to drive equity flows. Most of these flows were in the AI/high-tech space, but they also included utilities, as investors think energy needs will be higher going forward.

Politics played a key role last year, too. Half the world went to the polls in 2024. Near across-the-board losses by incumbents resulted in fiscal and policy uncertainty as we move into 2025. The US was no exception. In Q4, investors bought USD, US bond duration and US shares, driven by expectations of President-elect Trump's policies. We also saw the spread between our holdings of US equities compared to European and Asian stocks climb to 25% more than comparable holdings abroad – the highest level in more than three years.

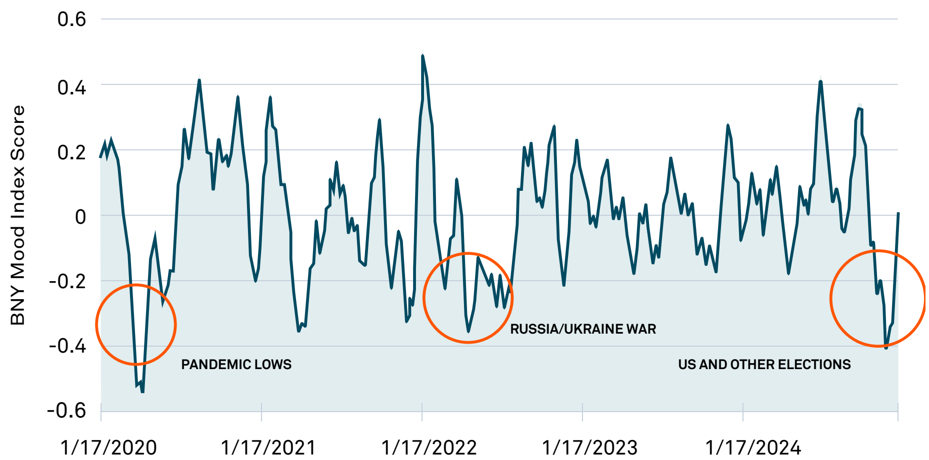
Our iFlow data... point to significant risk of reversals in USD, US bond duration and US equities in 2025

Our iFlow data, including the Mood index[1] and data on equity holdings, shorts, bond duration and cross-border flows, point to a significant risk of reversals in USD, US bond duration and US equities in 2025. The positive correlation of our bond and equity flows reached a three-year high of over 0.80% - which in the past has usually been followed by economic and market volatility. The caveat, however, is that much depends on the actual policies implemented by the incoming Trump administration – in contrast to the dependence on FOMC actions we saw in 2024.

[1] iFlow Mood is the difference between global equity flows & core developed markets short duration flows.

Our Mood index saw the biggest sell-off since the pandemic, and one of the fastest recoveries sets up global shares for a bigger bounce back.

EXHIBIT #1: IFLOW MOOD INDEX



Source: BNY, iFlow

The best-case scenario we see for 2025 is a repeat of the equities success story in 2024, with the S&P 500 climbing to 6,600 or higher, stable FX markets, global growth bouncing back and central bankers winning the war on inflation with soft landings. Much depends on the scope, sequencing and phase-in period of US trade tariffs. And how much they serve as a bargaining tool.

The worst-case scenario in the year ahead is a decline by the S&P 500 of 10–20%, an end to USD exceptionalism, and US rates jumping higher on concerns about US fiscal policy and doubts about US debt. The US will likely be most aggressive with its tariff policy against China and possibly Mexico and Europe. Trade tariffs could slow global growth and boost inflation, both of which are important factors for risky assets.

The path we take between these wild extremes will depend on the ability of the real economy to realize the current optimism being priced as a result of the new administration without succumbing to the effects of liquidity or outsized volatility due to concerns about mounting debt and reignition of inflation. Correlations between stocks and bonds in a world with US 10-year bonds yielding 5% led by curve steepening and pauses by the Federal Reserve and the moderating impact of a 5% rise in the S&P 500 could serve as a “speed bump.” This reflects the volatile split between share value and growth as investors are forced to rethink the Magnificent Seven. How investors handle even payouts by stocks and bonds will make asset allocation the decisive factor for performance in the year ahead.

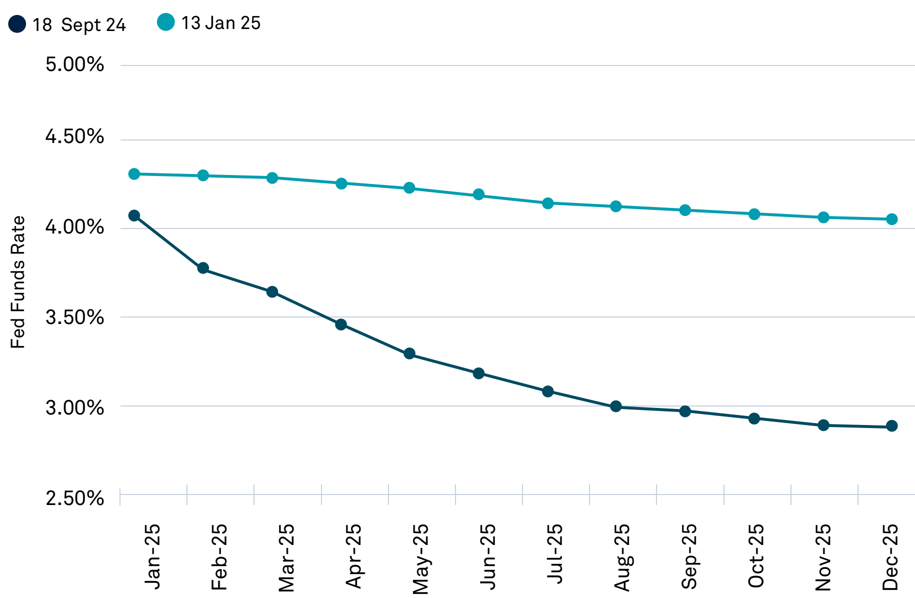
The traditional investment loading at year-end didn’t happen in 2024, as we saw lower volumes, less risk and trends that extended the story of US exceptionalism in Q4. Instead, these trends have been shifted to the first three weeks of January. There is still time for a reversal of these trends before Inauguration Day on January 20, 2025, marks the start of another Trump administration.

Forward Look:

As 2025 gets underway, the biggest concerns are trade and fiscal policy risks. While investors are now focused on tariffs and how they will affect US exceptionalism, much still depends on monetary policy changes.

Our cross-border bond flow correlation to Fed cut expectations is positive, meaning the Fed outlook and decisions are still important to 2025 risk.

EXHIBIT #2: FED FUNDS FUTURES IMPLIED POLICY RATE



Source: CME, BNY

Investors may consider avoiding buying FX or stocks in countries that are slipping into recession and instead focus on those that have bottomed out and are now experiencing a central bank and government expansion. Equities are usually the first to bottom out, followed by FX as the bond curve steepens. Historically, global slowdowns and periods of US growth do not occur simultaneously for long. The best-case scenario is that tariffs are crafted in such a way to limit significant, immediate impact on growth and there is a global recovery alongside the US with lower inflation. Our data show us that investors are hoping for the best and preparing for the worst.

02 US ECONOMIC OUTLOOK

Our View:

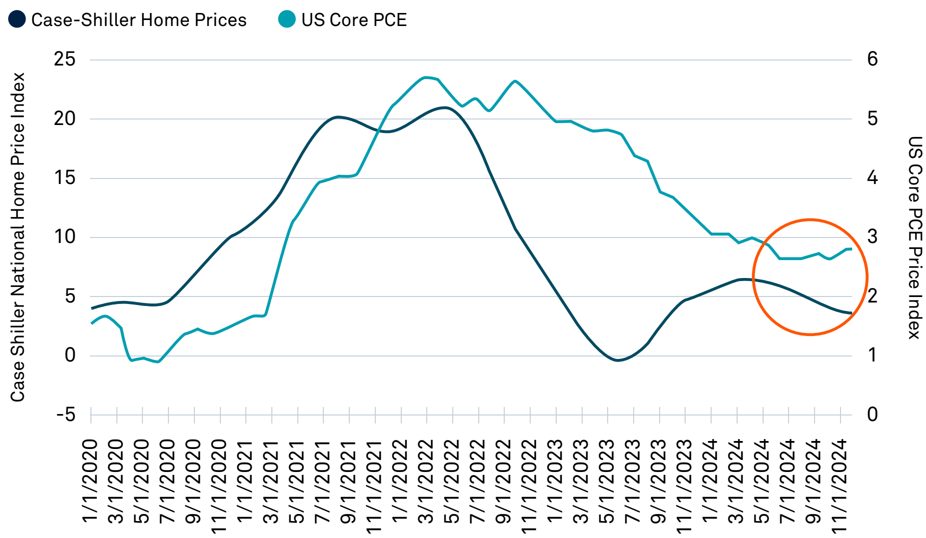
In 2025, we expect the FOMC to cut rates twice to 3.75%, but much depends on Trump's policies rather than the FOMC's views. The market is more hawkish than the FOMC and we believe the Fed will pause its rate cuts rather than continue with aggressive easing.

The US debt ceiling and budget are key fiscal components for the real economy. We saw fiscal dominance concerns in France, Brazil and the UK in 2024 – clearly reflected in our iFlow bond data – where bonds were aggressively sold on a cross-border basis for any nation with budget and debt-to-GDP issues. The set-up for the US is similar now as domestic clients own longer duration bonds. Issuance in 2025 will be important to rates – with the cost of government debt servicing climbing to over $1 trillion. Municipal and corporate investment-grade issuance is also expected to be significant – with municipal issuance at over $750 billion and investment-grade issuance at more than $1.5 trillion in the year ahead.

US inflation is strongly linked to housing costs and services – both are expected to drift lower as growth tracks sideways and rates remain elevated. The risk of housing costs remaining elevated is reflected in mortgage rates, with rates climbing again just a week into the new year to their highest level since last summer. There is also a political element as the new administration may begin the process of decreasing federal control over the mortgage market by releasing the two large government-sponsored housing entities (GSEs) from conservatorship. A fundamental aspect of service costs is unemployment, which we see rising to 4.5% or higher in 2025, as companies use job cuts to bolster their bottom line if revenues stagnate.

US housing costs should be disinflationary for 2025, but current divergence is still a Fed concern.

EXHIBIT #3: CASE SHILLER NATIONAL HOME PRICE INDEX



Source: Case Shiller FHA, Bloomberg

Forward Look:

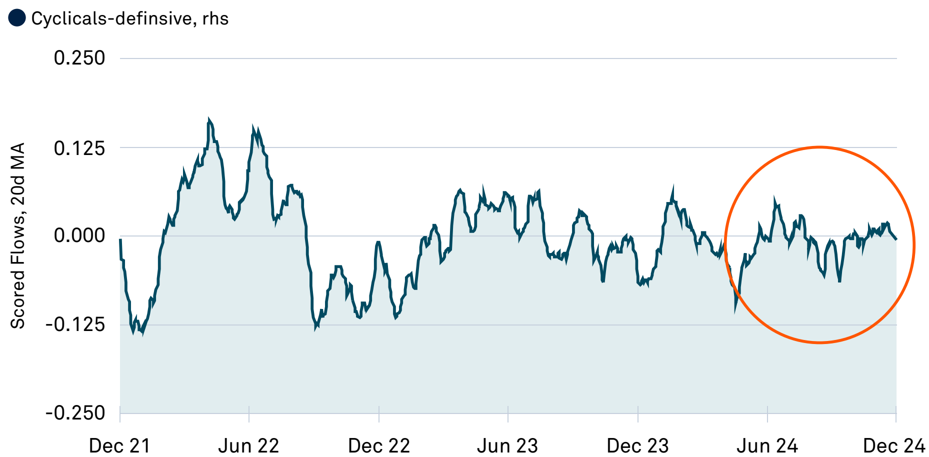
If current trends continue, the US economy should post a strong performance in 2025, with the labor market in equilibrium, inflation slowly returning to the Fed's 2% target, and GDP hovering around its 2% growth trend rate. However, policy will clearly shift as Republicans take the reins of power. At this point, we don't know exactly what the new policies will entail or their parameters. Major changes are likely, however. Some or all of these changes could impact growth in 2025. Here is how we see some of the major issues playing out:

- Tariffs will likely be hiked early in the year, directly raising prices of imported goods, creating both inflationary and growth-negative pressures.
- Border restrictions look set to be tightened and deportations intensified, putting upward pressure on labor costs.
- Regulations will probably be loosened, spurring capital spending, M&A and investment in alternative assets.
- Taxes will likely be cut, positively impacting growth, but possibly increasing inflationary pressure and/or fiscal deterioration.

Considerable uncertainty still exists on these potential policy shifts, and until they are officially announced and implemented, this uncertainty will persist and prevent investors from making large bets. Our iFlow data highlights this caution – investors tend to buy cyclicals when they expect strong growth and switch into defensives when they foresee growth faltering. Since the middle of last summer, these macro-related US equity flows have been flat, suggesting no measurable bias in favor of stronger or weaker growth going forward. This rejection of the usual sector cycle rotation shows up in purchases of financials, consumer discretionary and IT shares. That said, the US is poised to contribute to global growth meaningfully through investments in AI and computer power, which will likely increase with deregulation and continued domestic investments.

Equity flows were led by AI and tech in H2 2024, rather than business cycle factors.

EXHIBIT #4: US MACRO-RELATED EQUITY FLOWS



Source: BNY, iFlow

We expect steady US growth, but interest rates may rise due to likely policy changes. An extension of the 2017 tax cuts is expected to add $5 trillion to US debt over the next ten years. Additional fiscal policy expansion could be in the cards as well, exacerbating US debt dynamics that are already close to alarming.

We have observed significant and sustained selling of US Treasurys across the curve by cross-border investors. This lack of demand by overseas investors, if it persists, could put additional upward pressure on yields. Furthermore, immigration policy could constrain growth and worsen the inflation outlook, all leading to higher interest rates across the economy. Nevertheless, absent a major fiscal crisis, US growth should be resilient, even if the rate environment remains restrictive.

Inflation – and its implications for Federal Reserve policy – is another matter. Sticky prices in housing and shelter costs (currently 4.8% y/y) as well as core services ex-housing (4.3%) will take some time to recede – and it will only do so slowly at that. The recent halving of the FOMC's rate-cut projections from the four this year seen as likely in September to now just two cuts in 2025 is indicative of the Fed's concerns over lingering inflation.

Bracing for policy uncertainty and related market reactions is probably the best approach in the first half of the year.

03 MACRO POLICY DIVERGENCE

Our View:

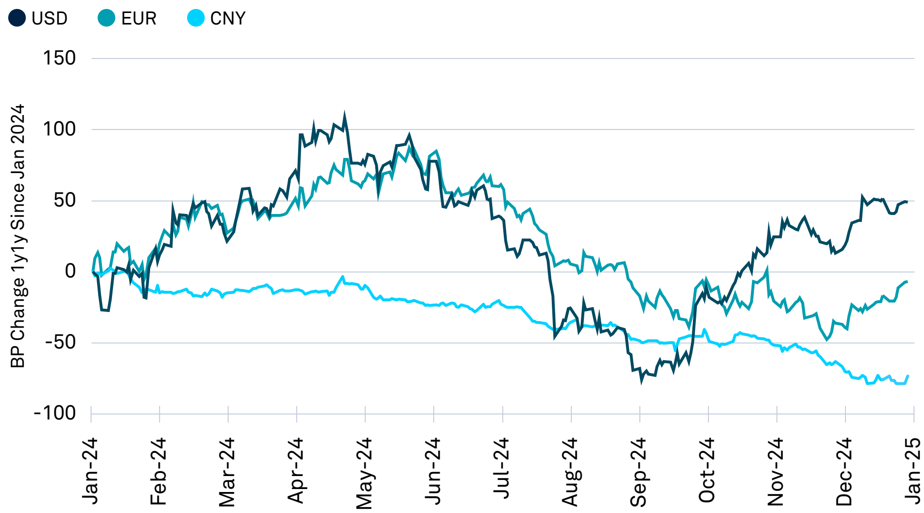
We see Brazil and Japan hiking rates, the US pausing its rate-cutting moves, China and APAC easing and dispersion in Europe. Looking at major central banks around the world, this is what we expect for macro policy in 2025:

- The market expects the Bank of Japan (BoJ) to hike rates to 0.75% by the end of 2025, but we see the risk of a hike to 1.0–1.25%, as wages and the CPI are on track to allow for further policy normalization. The cost of higher yields on the BoJ's and government's balance sheet will continue to cause political and budgetary problems.
- Brazil's Monetary Policy Committee (Copom) is expected to increase rates by 2.5% in 2025 to support BRL and fight inflation – but it depends on Lula's fiscal plans and the political risks ahead. Growth and inflation in Brazil have been higher, but we see this trend coming to an end in the second half of 2025.
- The European Central Bank (ECB), Riksbank and Swiss National Bank (SNB) could be close to the end of their policy cycles. Based on current positioning and valuations, we see the potential for the likes of SEK and CHF to perform well.
- China is expected to drive rates lower and issue more debt to help jumpstart its economy in 2025, and this should – similar to the US – lead to a curve-steepening trade. However, demand-based reflation could provide strong support for risk assets in China and across APAC.
- In contrast, the US FOMC could pause its rate cutting for an extended period depending on US growth, job market stability and inflation as it reflects shifts to US trade policy and immigration. Fear of sticky inflation is high for the Fed.

"Our dollar, your problem" is a common refrain for US exceptionalism. Irrespective of US or dollar fundamentals, when US interest rates and the dollar rise, the general impact globally is more restrictive financial conditions. Most global central banks cannot afford divergence and therefore need to hike aggressively to avoid capital outflows and a surge in pass-through inflation when US yields go up. Given the risk of no cuts in the US at all this year, which would mark a sharp reversal from expectations one or two quarters ago, many economies with stubborn inflation have had to match the Fed and then some. Brazil is the best example – its 1y1y forward rate swung from unchanged a year ago to a gain of over 600bp by the end of 2024.

US exceptionalism is already priced into FX markets for 2025, increasing the risk of any upside.

EXHIBIT #5: 1Y1Y FORWARD RATE FOR USD, EUR AND CNY



Source: BNY, iFlow

During the 2022–2023 surge in global rates, emerging market central banks were seen as more proactive than their developed market peers, which were stuck in a "transitory" setting for too long. This means that there is still some tolerance for the carry, but real rates must make their mark. For example, hikes in Brazil struggled to support the currency, but a larger-than-expected cut by Turkey's central bank in its last major decision of 2024 was ultimately justified by softer inflation numbers and the TRY has found some stability. The carry trade is under-owned, but as divergence takes place in real rates and policy credibility, carry positions will be very selective moving forward.

For developed markets, the Fed will matter and economies with large trade exposures to the US will be attuned to pass-through risk. However, this doesn't mean that the Fed is able to prevent rate cuts either, especially if the factors are beyond their control. From the Bank of Korea to the ECB, policy officials have stressed that in the event of general tariffs in the US, the demand drop from a loss in exports will be significant enough to offset any risk from pass-through inflation and deep cuts will be needed. This will undoubtedly push the dollar beyond current stretched valuations.

We have already seen in the first few trading sessions of 2025 that the FX market is very sensitive to tariff headlines, especially any suggestion that tariffs will be less aggressive than feared.

Given current valuations, there is scope for significant appreciation in surplus currencies.

Within Europe, we are seeing a case for divergence as well. One of the most surprising policy shifts late last year was that almost all of the Eurozone's "input economies" – Central and Eastern Europe, Sweden and Switzerland – either paused their rate cuts or signaled that terminal rates are approaching, complementing this stance with a more optimistic outlook on their own local economies. Given current valuations, there is scope for significant appreciation in surplus currencies such as SEK and CZK. Meanwhile, the ECB is somewhat behind, but there are also signs the economy has based. Despite all the negative headlines regarding domestic politics and growth, forward rates for the EUR ended the year largely unchanged. Coupled with positioning in EUR hitting extreme lows, this will help the EURUSD at a level below parity.

The major economy seemingly totally oblivious to higher US rates is China, where forward rates have fallen sharply but the entire benchmark bond curve has also adjusted to record-low yields. Considering much of Asia-Pacific central bank orthodoxy is dominated by the need to avoid the "lost decade(s)" of Japan arising from a combination of exchange rate misalignments, global trade dynamics and secular domestic trends, we fully expect China to take far more forceful measures to counter such trends.

There is a strong case now for China to look at its own versions of the "three arrows" adopted by the government of late Prime Minister Abe upon his return to the premiership over a decade ago. Monetary and fiscal easing, supplemented by structural reform is not a new theme but Japan's experience is that unprecedented size is needed to make a difference. This is where China can materially surprise to the upside given the country's central fiscal outlays have always been seen as more cautious, especially compared to Japan.

If the market sees a path in China to a credible version of Japan-style easing, extreme policy divergence would favor the dollar and exert downward pressure on the CNY and currencies across Asia, but risk-reward in rotating asset allocation to the region would rise sharply with strong reflation. Perhaps even more so than the euro and European assets, a re-rating of Asia is the biggest upside risk to markets, but the policy effort required in China and the region will need to be near-unprecedented.

Forward Look:

FX markets will remain active as the dollar's excess positioning continues to unwind selectively, while relative value trades intra-EM, and intra-Europe pick up in currencies and curves. Watch for reflation-related them es in Asia and industrial commodities, which, in turn, will have an asset market impact.

04 FX OUTLOOK

Our View:

There is a relative value in owning the yields provided by G10 and APAC bonds, and real yields will perform in emerging markets. Valuations and positioning will support funders in 2025. If Eurozone exporter economies stabilize, short covering and a gradual improvement in rate expectations across the forecast horizon will support EUR and SEK. GBP will materially underperform.

China stimulus and stagflation fears will support APAC FX and commodity-linked currencies globally. Carry as a theme remains uneven and despite inflation fears, a repeat of 2023 is unlikely.

Real yields will be important. While currencies are making progress against fiscal dominance, those with limited trade exposure to the US will be rewarded. TRY, INR and ZAR should be the biggest beneficiaries. The frontier focus will continue, as ARS, EGP and VND drive increasing interest in a new opportunity set for FX markets.

Despite the likely dominance of US drivers in global asset allocation, we fully believe that idiosyncratic factors will drive currency performance on a regional and national basis. Markets should not lose sight of the opportunity set in relative value trades amid an uncertain global environment.

In our view, the biggest risk-reward lies in exporter economies, where policy easing has largely run its course. Among these, EUR and SEK offer the greatest valuation and positioning attraction, supported by strong fiscal resources and attractive underlying asset valuations. The record level of bids for the first major Italian government bond auction of the year underscores allocation potential.

We would also not rule out recovery in Central and Eastern European (CEE) currencies. Based on iFlow data, positioning is far more neutral than the last two years and policy easing has slowed materially to maintain a real rate buffer, mostly to lean against fiscal strength. Resolution of the war in Ukraine could also result in re-rating.

Currencies that have limited trade and other links to the US could be rewarded as value could outstrip carry as iFlow shows.

The UK is the clear outlier in Europe and its fiscal outlook is under greater scrutiny. GBP is not benefiting from the curtailing of easing currently priced in markets. Domestic economic and fiscal discourse is also becoming increasingly toxic, undermining cross-border demand for what is still a major reserve currency. On a relative basis, GBP positioning can correct much further and may become a preferred funding currency in the region and even globally.

Widespread concern about global inflation suggests that asset allocation will favor regions with a structurally weaker inflationary environment. In APAC, subdued demand allows real interest rates to remain high even as nominal yields are lower. Combined with persistent surpluses, these dynamics can help curb additional currency depreciation.

Commodity names in the region such as AUD, NZD and INR stand to benefit. A demand lift from China which helps terms of trade aside, these are economies which have benefited from restrictive monetary policy which will anchor real yields: we continue to see New Zealand as the developed world benchmark for fiscal restraint complementing monetary policy, ultimately succeeding in bringing down inflation from high levels.

For most other emerging market economies, carry will be the main theme. Risk-reward is not favorable this year due to the uncertain US rate and policy outlook. However, where there is a sufficient real rate buffer and credible success in challenging fiscal dominance, residual flows seeking diversification from dollar exposures can materialize strongly, especially if prior positioning was soft. Core Latin American currencies such as BRL and MXN led the carry trade at its peak in 2023 and early 2024, but positioning is now far more neutral, and markets will seek clear progress in real rates before allocating to duration and reducing FX hedge ratios. Valuations in TRY, ZAR and INR are also attractive, and the latter has benefited strongly from index inclusion flows. These currencies can benefit from smaller trade exposures to the US, but progress is needed on fiscal adjustment without strongly curtailing growth.

Finally, it is important to mention the inexorable rise of frontier assets. Our data show strong performance for Argentine bonds last year. The country's current trajectory is attracting attention globally and if some degree of FX liberalization can be attained without destabilizing growth or balance of payments, the re-rating of the country's assets can continue apace. Egypt was also one of the best performing sovereign bond markets we tracked last year and sustained fiscal credibility can finally help disperse devaluation risk for EGP, which perennially looms over one of the most important economies in MENA. The APAC equivalent is Vietnam and the VND. After an eventful 2024, conditions may finally align for the country to fulfill its promise as the prime beneficiary of manufacturing supply chain diversification away from China.

Forward Look:

Overall, we expect stronger volumes in frontier as they become increasingly important in asset allocation in 2025 and beyond. They will also represent a source of growth in commercial opportunities for the global financial services industry.

Our data show that for the first time since June 2023, FX positioning has decoupled from nominal bond yields. High-yield liquidations are accelerating, and many funders, supported by strong valuations and surpluses, are poised to outperform the dollar. While the market continues shifting allocations away from the dollar, low-yielders like JPY, TWD, CHF and SEK, with solid balance of payments anchors and attractive valuations, offer opportunities. Even if recent buying reflects hedge unwinding, significant allocation gaps suggest potential for further inflows.

As we have shown, the markets in 2025 are expected to be more volatile than in 2025 and likely to provide less return for the risks, particularly in equities in the US. Markets are also likely to see a series of reversals out of the favorite trades from 2024 to something different in 2025, but just when and in what order remains uncertain. The US exceptionalism trade and the Trump tariff policy mix look incompatible but that alone will be insufficient to drive any change. Investors have priced in many worst-case outcomes for the world, while keeping up the best outlooks for the US. The actual outcome for 2025 is likely somewhere in between.

05 THE "FAB FIVE"

The set-up for 2025 and our iFlow positioning leave us with some clear risk-reversal views for markets. Based on our iFlow data, we see five main trades at play in 2025. Below, we outline these trades and detail our thinking behind them.

1. US exceptionalism could end, led by bear steepening in US Treasury markets

US exceptionalism is at risk of ending, driven by bear steepening in US Treasury markets. This dynamic reflects structural shifts in fixed income markets, fiscal policy pressures, and reduced cross-border demand for US debt.

Debt and bear steepening dynamics:

Unlike the 1980s, when higher rates attracted cross-border buyers, the current US debt supply increases yield pressures without equivalent demand. The US 2/10y curve has steepened from -30bp to +30bp, and historical trends suggest further steepening toward 75bp, signaling potential turbulence for US bonds.

Limited fed easing and policy risks:

Correlations with Fed rate cuts supported US bond prices in 2024, but for 2025, the likelihood of minimal rate cuts (0% vs. 1%) challenges fixed income markets. While we forecast two FOMC cuts (March and June), this assumes Trump's policies do not fuel inflation or suppress growth further.

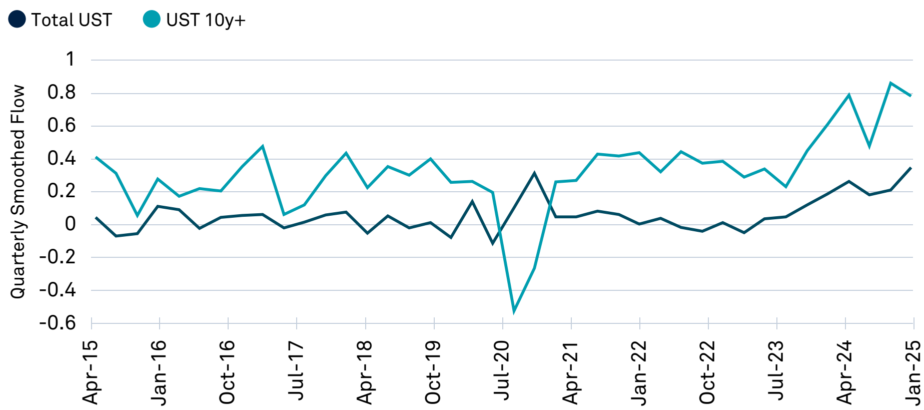
Foreign selling and fiscal pressure:

Foreign central banks defending their currencies have led to significant sales of US Treasurys. Brazil has spent $20 billion to support the BRL, South Korea's intervention hasn't prevented the KRW from reaching 1,480, and India, after $40 billion in intervention, has allowed the INR to weaken to 86. These trends reduce cross-border demand for US bonds. Domestically, fiscal concerns – from the debt ceiling to Trump's extended tax cuts and tariff-funded spending plans – are adding upward pressure on bond premiums, particularly on longer maturities.

The trade:

Bear steepening, 2s10s to challenge the 75bp–100bp range.

EXHIBIT #6: CROSS-BORDER SELLING OF US DURATION PICKS UP



Source: BNY, iFlow

2. US equities are stretched vs. rest of world – with a high risk of correction

US equities are overvalued relative to global peers and face a high risk of correction as portfolio rebalancing and stretched valuations put pressure on continued outperformance.

US equity holdings are above long-term averages:

US equity holdings are above long-term averages, with a strong likelihood of rebalancing in 2025 as investors diversify. Europe and APAC equity holdings remain below their five-year averages, highlighting potential for a shift in allocation away from US markets toward undervalued regions.

iFlow Short[2] positions are at Q4 2023 highs in Asia:

These positions are also near these highs in Europe, while they are at post-pandemic lows for the US. Meanwhile, iFlow Mood has recovered from the extremely negative levels recorded in December, led by APAC and EU shares and purchases of US short-term bills.

Global positioning and sentiment shifts:

US equities account for 70% of global market capitalization but only 27% of global GDP in 2024, underscoring their overrepresentation. Meanwhile,

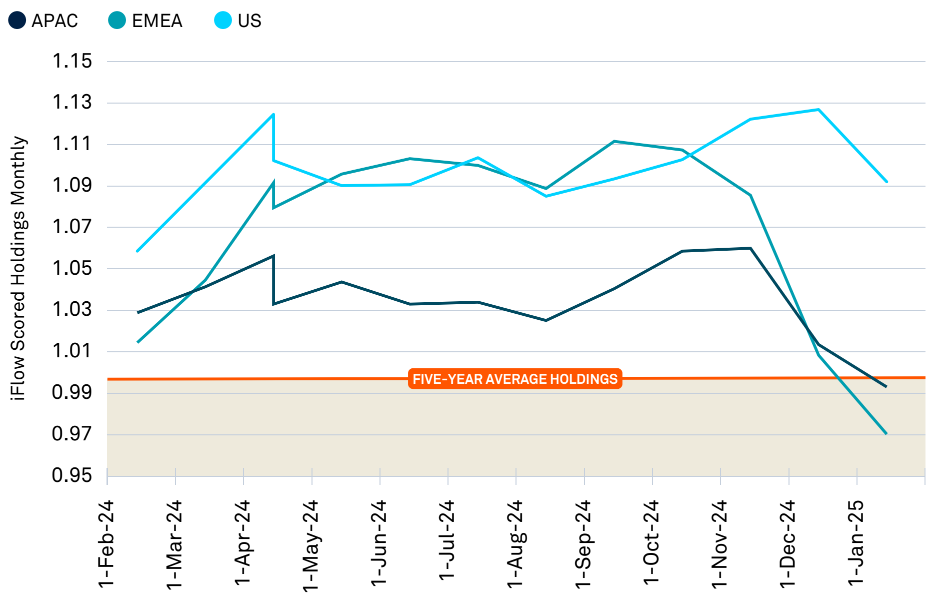
[2] iFlow Short reflects the equity borrowing across nations, sectors, industries from our security lending. The percentage of shorts reflects bull/bear sentiment.

short positioning in Europe and Asia is at Q4 2025 highs, indicating room for reversals, while iFlow Mood data shows improving sentiment for APAC and EU equities. US short-term bill purchases also point to a cautious rotation out of risk assets.

The trade:

An S&P 500 correction to 5,250 if the Fed pauses is seen as a buying opportunity, with an end-of-year target of 6,250.

EXHIBIT #7: EQUITY HOLDINGS BY REGION



Source: BNY, iFlow

3. The dollar will peak – and needs to peak

USD is now at a record high in real terms. Due to favorable inflation differentials and nominal gains, USD ended 2024 over 4% above its 2001 peak. The effect of a stronger USD on US imports, inflation and foreign revenues of US companies isn't fully reflected in exchange rates, but that should change in 2025.

EUR at risk of intervention below parity:

Our data show that short positions in EUR by cross-border investors is at their highest level in more than 20 years, indicating aggressive hedging of exposures. The last time this occurred, the ECB and other central banks engaged in a coordinated intervention.

Foreign earnings pose a problem:

As 29% of S&P 500 earnings are international and 60% are in currencies other than the US dollar, USD could weaken on selling of US equities. The IT sector's foreign sales-weighted exposure is 60%. Expect serious headwinds from foreign earnings translation.

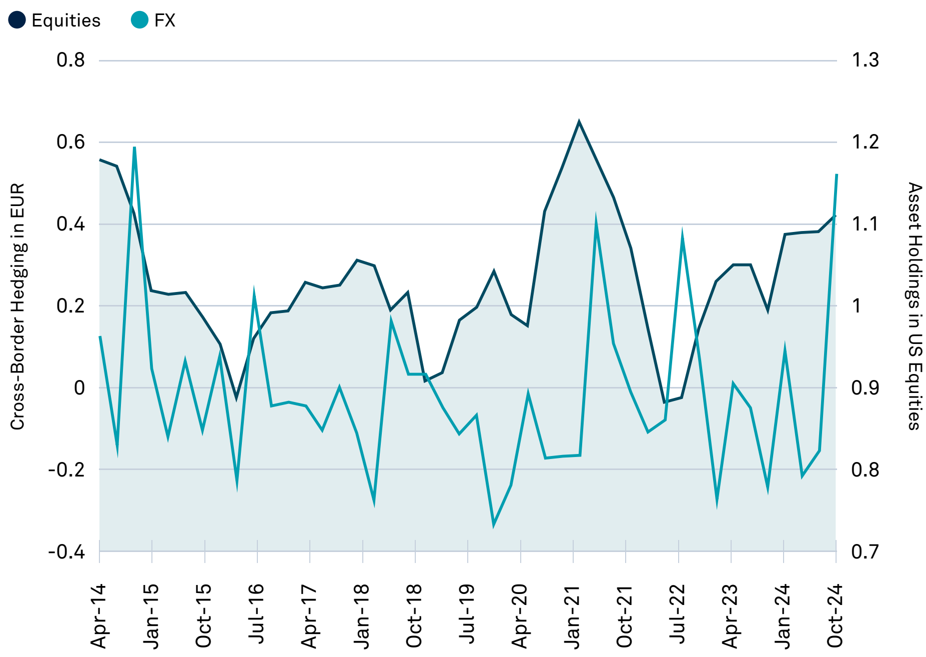
Tariffs and a strong currency will be difficult to sustain:

It will be difficult for USD to remain strong in light of increased tariffs without higher volatility of US assets – elevating the risk of a G7 agreement on the USD value.

The trade:

DXY will peak at 110, especially vs. JPY, EUR. Watch USDCAD and USDMXN.

EXHIBIT #8: FX FLOWS PEAKING IN DXY



Source: BNY, iFlow

4. Continental Europe could start surprising to the upside, led by equities and then FX

Continental Europe is well-positioned to outperform, with equities leading the recovery and FX gains likely to follow. Undervaluation, stronger fundamentals, and improving fiscal and political dynamics set the stage for upside surprises.

Valuation and yield appeal:

The Stoxx 600 forward P/E at 12.24 for 2026 is the lowest in 15 years, signaling deep undervaluation. European equities offer a dividend yield nearing 4%, compared to 1.4% for the S&P 500, enhancing their relative attractiveness. Additionally, extreme EUR short positioning and a weak currency provide a foundation for FX gains as sentiment improves.

Stabilizing fundamentals and policy tailwinds:

Economic data points to early stabilization, with Swedish and Swiss central banks signaling the end of easing, a likely precursor to ECB policy shifts. Post-Eurozone crisis reforms have eliminated financial stability risks, and strong fiscal resources, combined with the expected removal of Germany's debt brake, enable growth-oriented fiscal measures.

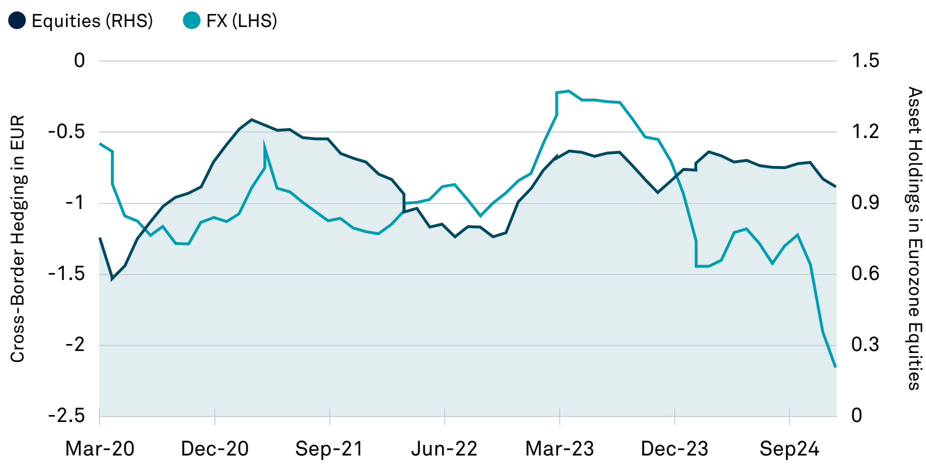
Improved political and structural backdrop:

Following the election in Germany, political risks are expected diminish, while joint issuance commitments through 2027 underpin sovereign support. A peace settlement in Ukraine would unlock a significant growth dividend, while the UK's stagflationary challenges and comparative underperformance further highlight Europe's relative value, encouraging flows into European assets.

The trade:

Double-digit performance of Stoxx 600, EURUSD to dip below parity and then stabilize. SEK and CHF to strengthen.

EXHIBIT #9: EXTREME POSITIONING IN EUR, WEAK PERFORMANCE IN EUROPEAN EQUITIES



Source: BNY, iFlow

5. China: a "three arrows" moment

China is entering a "three arrows" moment, marked by the convergence of fiscal, monetary, and structural policy efforts to stabilize its economy. This shift is poised to drive significant opportunities in fixed income, equities, and diversification flows across the APAC region.

Fiscal and monetary stimulus:

China's two-year government bond yield is approaching 1%, with the likelihood of convergence with Japanese yields (JGBs). Sustained fiscal stimulus, amounting to an additional 2% of GDP, is expected as Beijing ties growth directly to public welfare and social stability. Reflating the economy has become critical, reinforcing a strong fiscal impulse and supporting a bull flattening trend in Chinese fixed income markets.

Valuation support in equities:

Chinese equities are highly undervalued, with the CSI300 forward P/E at 11.28, near the 2013 record low of 11.14 and well below the 10-year average of 15.2. Policy-driven reflation and structural reforms should drive top-line growth, benefiting value stocks. Moderate tariff risks are already priced in, while continued focus on tech development and "high-quality growth" enhances long-term prospects.

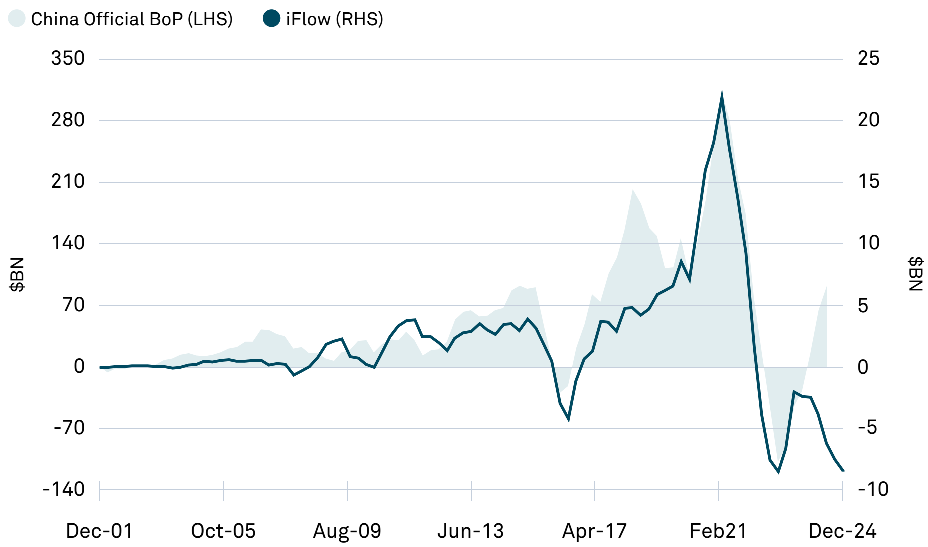
Diversification and rebalancing flows:

APAC emerging markets, particularly China, remain significantly under-owned relative to global allocations based on custodial data. Diversification flows into these markets are expected to accelerate, offering investors exposure to undervalued assets and potential outperformance amid broader global rebalancing.

The trade:

Double-digit performance in CSI300, 10y CGB recovers to 2.75%.

EXHIBIT #10: CHINA'S THREE-ARROW MOMENT?



Source: BNY iFlow; PBoC

iFlow

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