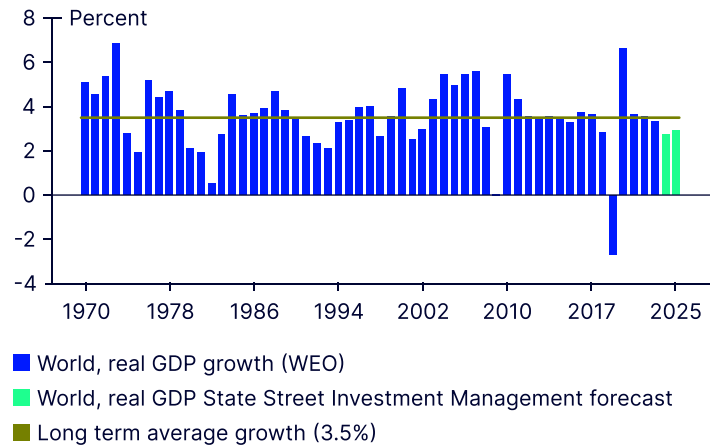


## Global economic outlook (page 2)

**Simona Mocuta**  
Chief Economist

- Uncertainty around what the final tariff landscape will look like shrouds the near-term outlook. However, all parties are motivated to reach trade agreements and we are optimistic on medium-term prospects.
- Despite a Q1 GDP contraction, the US economy will likely still generate higher growth for 2025 than nearly all its peers. We see growth improving in 2026, both in the US and in Europe, as more supportive policies take hold and the uncertainty cloud thins.
- We project 75bps of US Fed cuts this year. After 100 bps of cuts by the ECB in 2025 already, we don't think they need to do more. Meanwhile, the Bank of Japan may hold for the rest of the year, while we expect the Bank of England to play catch-up with more rate cuts.

**Figure 1: Global growth dips amid uncertainty**



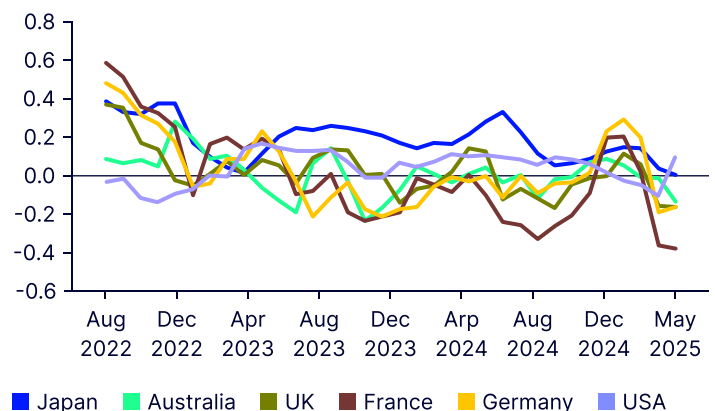
Source: International Monetary Fund, Macrobond, State Street Investment Management, as of June 26, 2025. The above forecast is an estimate based on certain assumptions and analysis made by the State Street Investment Management Economics Team. There is no guarantee that the estimates will be achieved.

## Global capital markets outlook (page 6)

**Jerry Holly**  
Senior Portfolio Manager, Investment Solutions Group

- In recent months, cross asset measures of market sentiment have moved in parallel with policy uncertainty indices, suggesting politics and policy have played an outsized role. While we expect policy changes to continue to influence markets, we think corporate fundamentals will re-exert their influence on market direction.
- We see the best directional opportunities in taking long positions in commodity and gold markets. In equities, we expect US markets to outperform international markets from a relative value perspective.

**Figure 2: US equity sentiment picks up**



Source: State Street Investment Management, Investment Solutions Group, FactSet as of May 30, 2025.

# Global economic outlook

**Simona Mocuta**

Chief Economist

Entering the second half of 2025, there are near-term downside risks as countries scramble to secure trade deals with the United States that minimize the effects of tariffs. However, we remain optimistic about the medium-term outlook.

In the three months since we penned the last edition of this quarterly publication, the global economy has undergone at least three years' worth of policy changes. Oddly, given the numerous policy announcements (and pronouncements) since March, our statements from back then still hold: "we still grapple with considerable uncertainty around the what, the when, the how, and the how long of incoming US policy changes".

But we do know a little more than we did then. The US administration has demonstrated both a willingness to severely rock the boat in order to induce desired outcomes, but also a sensitivity to market reaction that betrays no interest in having the boat actually tip over. On trade, the acute crisis moment has passed although US announcements in July of tariffs to take effect from August 1 has added a sense of urgency to securing final deals. The same is true for the US/Europe/NATO relationship. The fear that the US would walk away from its traditional alliances has subsided. Make no mistake: we will have higher tariffs, but not the insurmountably high tariffs that would have little constructive but highly disruptive effects. And there will be plenty of barbs traded with allies and guaranteed moments of frustration, but the NATO Summit declaration that reaffirmed the "ironclad commitment to collective defense" is what matters more.

And so, while we reflect near-term downside risks in a lower US growth forecast for 2025, we remain optimistic

about the medium-term outlook. We see growth improving in 2026, both in the US and in Europe as more supportive policies take hold and the uncertainty cloud thins. We hold to our call for 75 basis points (bps) worth of US Federal Reserve (Fed) cuts this year. The European Central Bank (ECB) has delivered the 100 bps worth of cuts we had projected, and we don't think they need to do more. Meanwhile, the Bank of Japan (BoJ) is hand-tied and may sit pat for the rest of the year; the Bank of England (BoE) remains behind the curve and should hasten more rate cuts.

## United States: Down but not out

At the midpoint of 2025, the US economy finds itself in an unusual position: underperforming. US real GDP contracted 0.1% quarter-on-quarter (q/q) in Q1, versus growth of 0.7% in the UK, 0.6% in Canada and the eurozone, and 0.2% in Australia. Even Japan did marginally better!

However, we don't believe investors should be particularly worried. For one, this situation is unlikely to last, not least because the very thing that drove the US underperformance in Q1 — namely, the trade deficit — also helped boost growth in the rest of the world. Those dynamics are already unwinding and will bring improvement from Q2 onwards. Indeed, our latest forecasts envision the US economy growing faster than all its peers (excepting Australia) in 2025 as a whole. We remain modestly above consensus estimates for US growth this year, and noticeably above for 2026.

To be fair, we worry about a recession, but we do not forecast one. We think a slowdown in growth is likely, but do not envisage it being particularly dramatic. Conditions are fairly bleak in housing, but there is also considerable pent-up demand in that space that could be released once interest rates come down further. Businesses may be cautious about investing

right now given policy uncertainty, but we expect that on key areas such as trade and fiscal, there will be considerably more clarity (and better news) by the time of our next update. There is pent-up business investment awaiting deployment given the need to strengthen domestic manufacturing supply chains, secure the energy infrastructure, and advance the AI race. Tax and tariff clarity would go a long way towards unleashing it.

There is a risk that we stumble before we get there, however. Many things matter for the US economy, but none more so than the consumer. And the health of the consumer hinges on the health of the labor market. This is why we argue the Fed should ensure that the labor market's evident recent softening does not devolve into something worse. Unlike the average worker, the Fed is not a powerless bystander here: it should take some insurance against a downside scenario by resuming the rate-cutting cycle before long. We'd prefer a July 30 cut (still possible if the labor market sends more troubling signals before then) and hold to our call for 75 bps worth of rate cuts before year-end.

## Eyes on the Fed

In addition to the visible labor market erosion, our argument for early/multiple cuts also rests on an assessment that inflation risks are manageable and that the lagged effect of earlier policy tightening has yet to fully feed through to the economy. Even as the Fed renews the cutting cycle, the effective borrowing rate on the stock of all existing mortgages will continue to rise, and so will net interest expenses for non-financial corporations. This is due not only to high rates on new borrowing but also due to the refinancing of existing debt stock at higher rates. Given these dynamics, one could more accurately describe any upcoming Fed rate cuts not as "easing" per se, but rather as "reducing the tightness".

The inflation picture is not perfect, but it is far from terrible. Headline personal consumption expenditures (PCE) inflation has averaged 2.3% year-on-year (y/y) in the three months through May and core PCE inflation averaged 2.7% y/y. True, they'll worsen again from here, but not by a lot. Thanks to ongoing disinflation

in shelter, we remain more constructive on inflation than the Fed or consensus. We are expecting core PCE inflation to average 2.8-2.9% y/y in Q4.

As already noted, we are more constructive on 2026 growth prospects. As policy uncertainty eases, as the initial negative shocks dissipate, as the Fed easing advances, and as other elements of the pro-growth agenda unfold, we believe US growth can reaccelerate to the low 2.0% range.

Do not give up on the US economy or the US exceptionalism narrative too soon.

## Eurozone: Time to deliver

Last quarter, we were clear in our delight and enthusiasm about the reform of the German debt brake and the general shift towards a more pro-growth fiscal stance in the broader eurozone. Subsequently, we raised growth forecasts for the region to 1.1% this year and 1.6% in 2026. This quarter, we made no changes to the 2025 projection and shaved a tenth from the 2026 number. Just as we are with regards to US growth, we remain modestly above consensus expectations for this year, and notably so for 2026.

In all fairness, we wonder if the 2025 projection is not, in fact, too conservative. The economy delivered a positive growth surprise in Q1 that left real GDP up 1.5% y/y. This is not much by most standards, but it marked the best performance since early 2023. Importantly, this wasn't just an external demand or inventory building story. It reflected a surge in fixed investment which has now posted solid growth for three consecutive quarters. There is potentially (much) more to come here. Consumer spending wasn't great, but it remains on track to improve in the second half of the year as the negative sentiment hit from tariffs eases.

The ECB has done its part, delivering 100 basis points worth of rate cuts so far this year. After the latest cut in June, ECB President Christine Lagarde signaled that the cutting cycle may be over. This has long been our view — that in light of an improving fiscal backdrop, there is no need for the ECB to do more. Still, one cannot entirely dismiss the possibility of one more reduction later in the year.

Trade and tariffs remain the main downside risk as the timeline to an agreement comes closer. What an agreement means in practice remains to be seen but we believe every facet of the US-Eurozone interaction is interconnected and the positive outcome of the NATO summit is encouraging in that regard. We believe the fraying of the US-European alliance would be a terribly detrimental development and have been encouraged by what appears to be an improved tone in bilateral interactions.

Our 2025 German forecast is also unchanged at 0.8%, well above consensus. We recognize that this is an optimistic forecast, but we are encouraged by the clear improvement in performance (0.4% q/q growth in Q1 was the best since Q3 2022). And we definitely welcome the pickup in household consumption, long a missing piece in the context of solid household finances. Finally, given the expansionary fiscal stance, we anticipate sustained improvement in investment.

## **United Kingdom: Job market weakness is accelerating**

Domestic issues and global tensions persist in posing challenges to the UK economy. Although 2025 commenced with a strong start, overall activity remains lackluster due to subdued demand and weak business sentiment. The increased employer costs following the Autumn Budget, along with elevated US tariffs, are expected to continue weighing on exports, business investments, and employment plans. Additionally, the trade agreements between the UK and the EU, US, and India are only providing limited support for near-term economic growth, which could be offset by other factors working in opposite direction.

Following robust growth of 0.7% quarter-on-quarter in Q1, the UK's GDP contracted more than anticipated in April, reflecting the drags from increased labor costs, higher stamp duties, and US tariffs. Although this aligns with our projections, the undershoot in household consumption in the first quarter indicates that the effects of the government's front-loaded fiscal stimulus have diminished more rapidly than expected. Notably, the government's policy to expand the public sector has resulted in the crowding out of the private sector, compelling firms to reduce investment plans and hiring

activities. This is making households more cautious about their own spending. We expect the consumption recovery will remain sluggish until 2026. At the same time, rising costs, a stronger pound, and global trade uncertainties are expected to continue affecting manufacturers and exporters adversely.

The UK trade outlook appears to improve marginally as, in May, the government secured trade deals with the US, India, and the EU. However, these agreements are unlikely to significantly enhance the UK's economic prospects due to their limited scope. Specifically, regarding the US, the UK's position has worsened compared to the pre-tariff period. The UK-US agreement maintains tariffs higher than previous levels, with most products subject to a 10% tariff. The exclusion of steel and aluminium from the proposed 50% tariff, and cars from the proposed 25% tariff, is applicable only to a specific volume of goods. Overall, these trade deals are expected to boost GDP by less than 0.5% over several years, just a fraction of the 4% hit to UK productivity from Brexit.

## **Inflation and jobs in focus**

Disinflation has continued following the spike in April's Consumer Price Index (CPI), which was influenced by specific factors such as index contracts, regulated prices, the timing of Easter, and road tax. These impacts are expected to diminish in the coming months. In May, inflation measured slightly higher than expected at 3.4%, but the increase was primarily confined to the goods sector. Conversely, services inflation decreased more than expected, dropping to 4.7% from 5.4%. Core services inflation, which excludes volatile items like fares, package holidays, and rents, followed a downward trend in May.

The job market easing is accelerating, which is consistent with decreased economic activity and the increases in both the National Living Wage and employers' National Insurance Contributions (NICs) in April. The latest labor report indicated a reduction of 109,000 in payrolled employment, primarily within the private sector. Currently, private sector payrolled employment is down 1.7% from a year ago. At the same time, the ratio of vacancies to unemployment continues to decline. The weakening job market contributes to a notable reduction in wage growth, easing one of the Bank of England's main concerns. Despite the increase in the National Living Wage in April,

private sector wage growth decreased to 5.1% during February-April from 5.9% during December-February, which is below the Bank of England's May forecasts.

The Bank of England maintained its 4.25% policy rate during June's meeting, showing no signs of quickening the pace of rate cuts. While macro conditions favour lower rates, uncertainties in trade, geopolitics, and data quality lead the BoE to stick with a gradual approach for now. Two rate cuts are expected in August and November, but persistent labor market issues could prompt faster reductions.

## Japan: Managing a bad hand

Japan faces a challenging global macroeconomic environment, with escalating tariffs — particularly on automobile exports — and limited progress on a US trade agreement weighing heavily on its economic prospects. These external pressures are compounded by domestic complexities, including elevated inflation, consumption tax burden, and a renewed focus on defense spending.

As a result, we have revised our GDP growth forecasts downward to 0.4% year-over-year for this year and 0.6% for next year. Resilient domestic demand remains a key support pillar, with private consumption expected to average 0.8% in 2025 and improve to 1.4% in 2026.

Tariffs remain the most significant downside risk. Negotiations with the US have made little headway and Japan's export sector could face a substantial drag if a more favorable deal cannot be achieved. While Japanese negotiators are diligent, their leverage appears limited. We remain cautiously optimistic about a deal, though Japan may have to settle for less favorable terms than they had hoped for.

The recent NATO commitment to allocate 5% of GDP to defense spending adds further fiscal pressure. While defense outlays can be stimulative — particularly if domestically sourced, as is typical in Japan — they may also preclude a long-hoped-for reduction in the consumption tax. This would be a setback for household demand and broader economic momentum.

The risk of enduring tariffs on Japanese exports, especially automobiles, remains high. Japan had hoped

to reduce the 25% tariff on autos announced in April to help the economy to absorb the impact more effectively and reports indicate Japan's auto manufacturers are cutting prices to remain competitive in the US.

## Japanese inflation accelerates

One striking development is Japan's position as the advanced economy with the highest inflation rate. A sharp surge in rice prices has been a key driver, with inflationary pressures now spreading to broader categories such as recreation. In response, the government has released 300,000 tons of rice from reserves — about 5% of total demand — and has revised auction methodologies to lower prices. While official inflation metrics may not fully capture these price shifts, they could shave nearly 0.5 percentage points off the headline inflation rate. More downside risks may come in 2026 from base effects and subsidies on energy and food.

These dynamics are already visible in the May Tokyo CPI data, where a 34.6% drop in water charges led to a softer-than-expected print. The BoJ's core CPI (excluding fresh food and energy) came in at 3.1% y/y, below the 3.3% consensus. We forecast CPI to remain firm at 3.0% in 2025, and then easing to 1.8% in 2026. However, upside risks persist, particularly as consumer inflation expectations continue to rise.

The Bank of Japan (BoJ) has managed market expectations adeptly amid volatility in long-term government bond yields. It is gradually reducing its JGB purchases — by ¥400 billion per quarter through Q1 2026, tapering to ¥200 billion from Q2 2026 — allowing market forces to play a greater role in yield determination.

While the BoJ is committed to normalization, policy rate hikes remain contingent on clarity around trade developments. Even if Q2 GDP prints negative, we believe the BoJ will proceed with its normalization path, with one rate hike anticipated this year and another in 2026.



# Global capital markets outlook

## Jerry Holly

Senior Portfolio Manager, Investment Solutions Group

Looking forward in such tumultuous times, specific numerical forecasts may be less effective in an environment characterized by dramatic changes in the policy landscape. We consider risk reduction to be most sensible for the time being and we've taken down absolute risk (by moving to a modest equity underweight) as well as relative risk (by reducing the size of many of our active positions).

### Market outlook good, not great

Over the past quarter, we have seen the S&P 500 recover from a 15%+ correction as a faster pace than ever before.<sup>1</sup> This rebound occurred as market signaling spurred reflexive trade policy adjustments on the part of the US administration. Beyond equities, copper prices in the United States experienced their largest single-day price surge since records began in 1968. This was similarly not a result of fundamental supply and demand forces, but rather the imposition of an import tariff by the United States. And oil prices jumped by more than 15% over the course of seven trading days before falling by a similar magnitude. The sharp drop in oil prices occurred (counterintuitively) as Israel and Iran exchanged missile fire and the United States bombed Iranian nuclear facilities.

Investors could be forgiven for thinking that there was anything beyond politics and policy to be concerned about. And, as we will show, there are important parts of our investment research and views that are shaped at least in part by the changes in sentiment that have resulted (directly or indirectly) from improvements in the political sphere. Our overall positioning with respect

to risk assets would fit that bill as we have added to equities but maintain an overall portfolio allocation that is only modestly above benchmark. However, if we drill into what we see going on within the various global equity asset classes, where our guideposts lean more heavily on company fundamentals, we start to see greater dispersion in the outlook. In fixed income, we see rates markets as largely range-bound but with more differentiation in terms of steepening/flattening trends; this is driven in part by varied progress on monetary policy objectives.

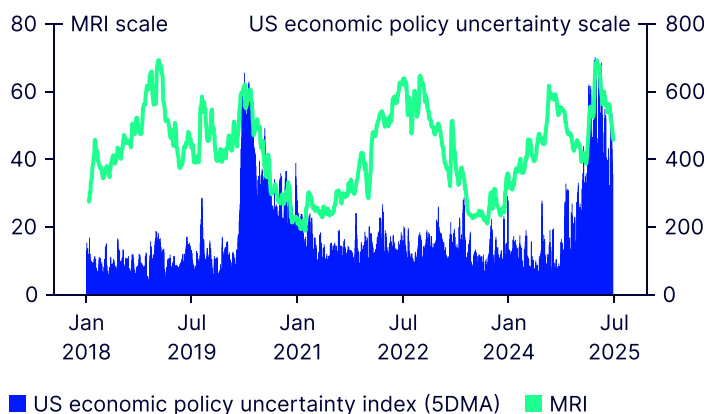
The third quarter will deliver important macroeconomic and company-specific performance updates. The inflation reports that will be released in July and August may be the first to potentially capture any impact from the elevated tariff regime, even if we view the impact as temporary. Same goes for second quarter earnings reports, where we will get a first glimpse of how company results are holding up under increased trade frictions. For our part, we expect equity markets to continue to exhibit resilience but a degree of caution is warranted following the sharp recovery over the past two and a half months.

### Market and policy sentiment in lockstep (for now)

Although our Market Regime Indicator (MRI) is constructed using a diversified blend of market-based variables, it has largely followed the path of other more policy-focused benchmarks since about mid- February (see Figure 3). Looking at this period in isolation, one might come to the conclusion that the diversified inputs of our own indicator might not be necessary. But a more holistic evaluation clearly shows that this is more of an anomaly than the norm. To be sure, we can see a similar correlation following the onset of the pandemic, but the intervening years couldn't be more different. The economic policy uncertainty index does not capture

any of the distresses associated with the inflation and interest rate shock of 2021/2022. The two indicators also diverged meaningfully at the end of 2024 when our MRI was suggestive of an improving market environment following the early August yen carry trade unwind. While we don't expect policy news and headline risks to abate, we do think that fundamental company operating performance will take on increased focus and in that environment the diversified signals within the MRI should deliver better insights.

**Figure 3: MRI and economic policy uncertainty**



Source: Baker, Scott R., Bloom, Nick and Davis, Stephen J., Economic Policy Uncertainty Index for United States [USEPUINDXD], retrieved from FRED, Federal Reserve Bank of St. Louis, July 14, 2025. State Street Investment Management Investment Solutions Group for Market Regime Indicator (MRI) data.

In the current environment, our MRI is hovering close to neutral in terms of its influence on our equity allocations. Certain factors embedded in the MRI, such as implied volatility in equity and currency markets, have fallen significantly and express a healthy dose of optimism. However, other constituents, like our proprietary credit market sentiment gauge, signal some caution due to relatively tight spreads and argue for positioning closer to neutral. On balance, that is roughly where we land in our portfolios as we hold a small equity overweight compared to our benchmark.

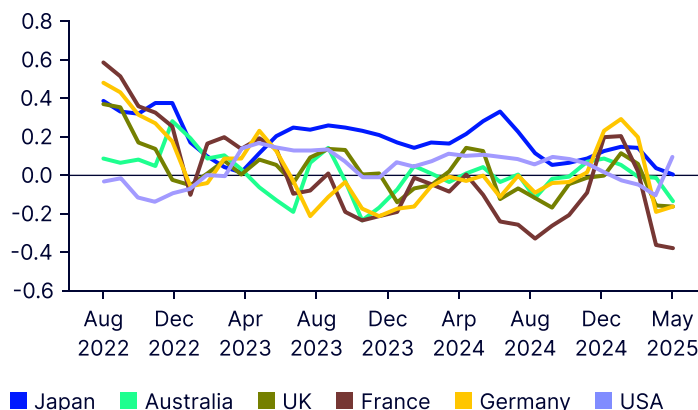
## From the US to International and back again

While we may not be taking significant active risk in our aggregate equity allocations, we have built up sizable

intra-equity stakes with respect to regional equity allocations. Interestingly, the path has been something of a round trip — we started the year favoring US equities, shifted investments into non-US equities, and we've now returned to a preference for corporate America. In this respect, our quantitative evaluation of global equities is very much in agreement with our macroeconomic outlook that it is too soon to give up on the US economy and US exceptionalism.

But it is worth digging deeper into the reasons for the change in perspectives. After all, there are compelling reasons to take international markets seriously, above and beyond the still strong year-to-date performance. In Europe, we will see significant fiscal policy shifts to bolster economic growth and (likely) provide support to stock markets. Japanese equity markets continue to benefit from meaningful corporate reforms, something which has been given a stamp of approval by investors such as Warren Buffett. And while the market's DeepSeek moment from January may feel like eons ago, China's catch-up on artificial intelligence bears close monitoring. There is truth to all of these narratives, but they also represent longer-term factors that will inevitably experience twists and turns. Our near-term capital markets positioning is anchored on changes in what we view as the most important developments to help navigate shorter-term equity market dynamics.

**Figure 4: US equity sentiment picking up**



Source: State Street Investment Management Investment Solutions Group, FactSet as of May 30, 2025.

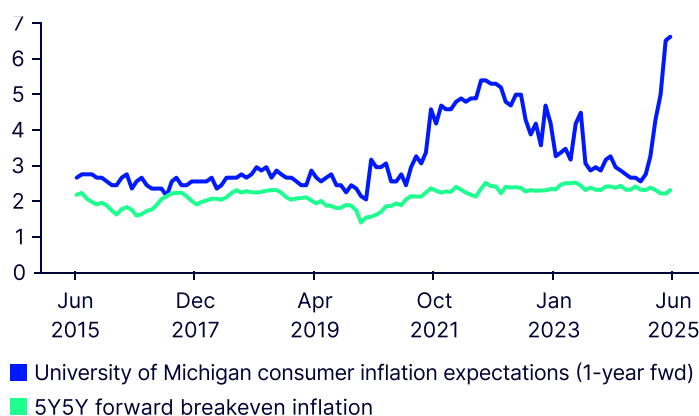
In that respect, changes to earnings and sales sentiment across countries has been one of the key pivot points driving our equity adjustments. Figure 4 illustrates “sales sentiment” which is a proprietary diffusion index of analyst sales estimates. The US market is represented by the red dotted line and we can see that it was generally at the upper end of the distribution (meaning stronger upward sales estimate revisions) compared with its peers. But the situation deteriorated for US equities in early 2025 and that was one driver of our reduced US equity allocation. More recently, we can see that expectations for revenue growth at US firms has picked up while international markets have either flat-lined or deteriorated. The longer-term narratives remain, but our tactical positioning listens to the data.

But our portfolio changes are not just about earnings or sales sentiment — the research we conduct utilizes a much more diversified set of factors. Weakness in the US dollar, which contemporaneously boosts the returns of unhedged non-US equity investments, tends to lead to stronger local market performance going forward (and vice versa for most other major non-US equity markets). Cross sectional comparisons of country yield curves show the US market as exhibiting a relatively flat curve — a feature that is generally associated with economies that are growing faster, all else being equal. And the relatively sluggish cyclical signals emanating from indexes like global manufacturing PMIs would tend to benefit US equities versus international markets.

## Stability in bond markets

In fixed income, we see interest rates as range-bound on a short-term basis and don’t anticipate meaningful moves in one direction or the other. Longer-term equilibrium fair value estimates may indicate potential for rates to move lower; however, due to current concerns regarding deficits and safe haven assets, this does not appear to present a short-term opportunity. While any uplift in summer inflation reports may have follow-through effects to already-elevated consumer expectations for inflation, we think it’s unlikely that market-based measures of breakeven inflation adjust to those data points (see Figure 5).

**Figure 5: Inflation expectations — market vs consumer**

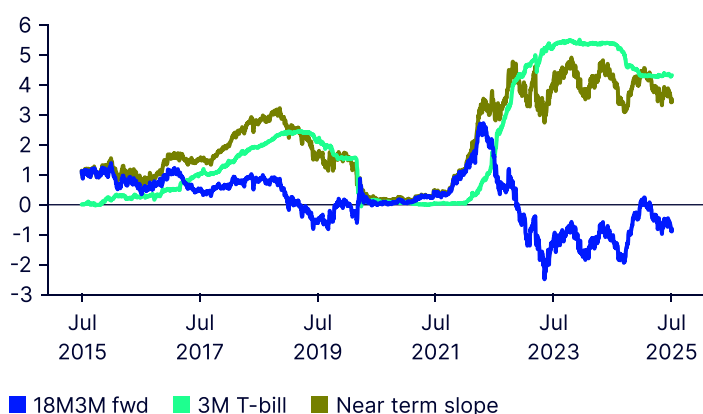


Sources: University of Michigan: Inflation Expectation [MICH], Federal Reserve Bank of St. Louis, 5-Year, 5-Year Forward Inflation Expectation Rate [T5Y1FR] retrieved from FRED, Federal Reserve Bank of St. Louis. Data as of June 2025.

However, even without expectations of any significant near-term decline in interest rates, the ongoing carry from many fixed income markets puts the asset class on a decent footing to begin with. Add in our baseline view for short-term bull steepening and stable credit spreads, and the overall returns on offer in bond markets are pretty healthy. Figure 6 illustrates one of the drivers of any potential curve steepening for US Treasury markets. We refer to this indicator as the near-term forward spread and it tells a story that is not terribly dissimilar to what one can glean from overnight index swap (OIS) or federal funds futures markets. However, the near-term forward spread tends to be more stable and focuses on what forward pricing implies for three-month Treasury bill rates 18 months into the future (so January 2027 or thereabouts). We can see that earlier in the year this metric was suggesting virtually no change in short term rates, even 1.5 years into the future. But today’s forward rates suggest T-bills will be around 100 basis points lower, which is one factor contributing to our curve steepening view.



**Figure 6: Near-term forward yield spread**



Source: JP Morgan Markets as of July 1, 2025. Past performance is not a reliable indicator of future performance.

With sentiment toward risk assets generally improving and interest rate volatility subsiding, our modeling also expects a stable environment for both investment grade and high yield credit. But with credit spreads historically tight we've limited our exposure, particularly in the case of high yield. But even in the high yield market fundamentals don't look alarming. At 4.2 times, the aggregate interest coverage ratio is in line with a 10-year average. And default rates and gross leverage ratios are also relatively low compared with history — which contributes to the relatively thin spreads being earned. In any event, we maintain overweight allocations to credit, even if we're not piling in.

## Commodities: Our largest overweight

When dissecting our overall portfolio positioning we see that our largest overweight positions are in the commodity complex. Gold continues to rate most highly in our analysis and that is where we maintain our largest position, but the outlook for broad-based commodities has improved and we've added exposure there as well.

For broad-based commodities, we see the most compelling near-term opportunities in precious metals and in energy-related commodities although all five main commodity sectors score positively in our model. For energy markets, the fundamentals are mixed as we continue to see reasonably firm demand for both oil and natural gas but with offsetting supply and inventory considerations. In oil markets, US inventories are seasonally low, but global inventories have

increased meaningfully over the past several months — particularly in the Middle East as floating inventories built up amid Iran/Israel geopolitical tensions. For natural gas, US production remains elevated and storage levels are north of their trailing five-year averages. But the energy sector, and others, generally show up as attractive using our quantitative signals in part because they may be overlooked due to weaker past performance. In this vein, we evaluate the skewness of commodity markets; the relatively negative skew suggests that commodity prices may be undervalued — and this phenomena is supporting all commodity sectors with the exception of agricultural commodities.

Gold remains one of the stronger assets according to our tactical asset allocation research — whether we consider commodity markets or other cross asset investments. Both investor and central bank demand have remained firm and the technical and fundamental outlook also remain positive. On the technical side, all five trend-oriented factors we utilize continue to suggest gold is in a positive trend. And from a fundamental standpoint, the high and increasing debt-to-GDP ratio in the United States alongside lower short-term real interest rates anchor gold's relatively firm outlook.

## Focusing on where opportunities present themselves

With an equity outlook that we'd characterize as good but not great, we think it is better to look elsewhere for investment opportunities. We see those opportunities arising mainly in commodity markets if we think about net long positions in our multi-asset portfolios, and also within equity markets if we focus on cross-sectional opportunities. While subdued global growth expectations might seem inconsistent with broader exposure to commodities, it may be just the sort of environment that allows commodities to outperform amidst “negative skew.” And within global equity markets, we continue to see good long-term opportunities in non-US equities. But in the short term, our preference has shifted back to US stocks where US exceptionalism might well be re-emerging.

## Endnote

- 1 Strategas Quarterly Review in Charts, July1, 2025.

## State Street Investment Management forecasts

	2025 (%)	2026 (%)
<b>Real GDP growth</b>		
Global	2.7	2.9
US	1.7	2.3
Australia	1.8	2.4
Canada	1.0	1.2
Eurozone	1.1	1.5
France	0.6	1.0
Germany	0.8	1.9
Italy	0.6	1.0
UK	1.0	1.3
Japan	0.4	0.6
Brazil	2.6	1.6
China	4.8	4.4
India	6.4	6.4
Mexico	0.3	1.9
South Africa	0.9	1.5
South Korea	0.9	1.8
Taiwan	2.7	2.5
<b>Inflation</b>		
Developed economies	2.3	2.0
US	2.7	2.4
Australia	2.3	2.6
Canada	2.2	1.8
Eurozone	2.1	2.0
France	1.2	1.7
Germany	2.2	2.0
Italy	1.7	1.7
UK	3.1	2.5
Japan	3.0	1.8
China	0.4	1.0

	June 30, 2025 (%)	June 30, 2026 (%)
<b>Central bank rates</b>		
US (upper bound)	4.50	3.25
Australia	3.85	2.85
Canada	2.75	2.25
Euro	2.00	1.75
UK	4.25	3.25
Japan	0.50	1.00
Brazil	15.00	13.50
China	1.50	1.50
India	5.50	5.25
Mexico	8.00	7.00
South Africa	7.25	7.00
South Korea	2.50	2.00
<b>10-year bond yields</b>		
US	4.23	3.76
Australia	4.16	3.91
Canada	3.24	3.07
Germany	2.60	2.54
UK	4.49	4.18
Japan	1.44	1.79
<b>Exchange rates</b>		
Australian dollar (A\$/ \$)	0.66	0.69
British pound (£/ \$)	1.37	1.39
Canadian dollar (\$/C\$)	1.36	1.32
Euro (€/ \$)	1.17	1.22
Japanese yen (\$/¥)	144.45	135.00
Swiss franc (\$/SFr)	0.80	0.80
Chinese yuan (\$/¥)	7.17	7.00

One-year return forecasts	USD (%)	EUR (%)	GBP (%)	JPY (%)	AUD (%)	CAD (%)
S&P 500	6.5	2.5	5.0	-0.4	1.2	3.1
Russell 2000	7.2	3.1	5.7	0.2	1.8	3.7
MSCI EAFE	7.5	3.4	6.0	0.5	2.1	4.0
MSCI EM	8.7	4.6	7.2	1.6	3.2	5.2
Barclays Capital Aggregate Bond Index	5.0	1.0	3.5	-1.9	-0.3	1.6
Citigroup World Government Bond Index	2.2	-1.7	0.8	-4.5	-2.9	-1.1
Goldman Sachs Commodities Index	6.6	2.6	5.1	-0.4	1.2	3.1
Dow Jones US Select REIT Index	5.1	1.1	3.6	-1.8	-0.2	1.7

State Street Investment Management forecasts, as of June 30, 2025. The above estimates based on certain assumptions and analysis made by State Street Investment Management. There is no guarantee that the estimates will be achieved.

# About State Street Investment Management

At State Street Investment Management, we draw from our global scale and market-tested expertise to help create original solutions and better outcomes for our clients and the world's investors.

## statestreet.com/investment-management

State Street Global Advisors (SSGA) is now State Street Investment Management. Please [click here](#) for more information.

### Marketing communication

#### State Street Global Advisors Worldwide Entities

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income.

Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise bond prices usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns.

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Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

Investing in REITs involves certain distinct risks in addition to those risks associated with investing in the real estate industry in general. Equity REITs may be affected by changes in the value of the underlying property owned by the REITs, while mortgage REITs may be affected by the quality of credit extended. REITs are subject to heavy cash flow dependency, default by borrowers and self-liquidation. REITs, especially mortgage REITs, are also subject to interest rate risk (i.e., as interest rates rise, the value of the REIT may decline).

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