2025 Midyear Global Market Outlook

Contents

2025 Midyear Global Market Outlook

Lori Heinel, CFA
Global Chief
Investment Officer

We noted in our Global Market Outlook 2025 that while we retained confidence in a soft landing outcome and a generally positive environment for risk assets, much was unknown about the policies of the incoming Trump administration. We know a lot more now. After a turbulent period that saw episodic swings in both equities and bonds in response to wide-ranging executive orders and the announcement of higher-than-expected tariffs, financial markets have since stabilized with the tariff imposition paused to allow for trade negotiations. There is now greater confidence that tariff levels will settle well below the original headline levels that spooked markets.

While much has changed, a lot remains the same. Notwithstanding all the noise, we largely maintain our growth forecasts and projections for central bank rate cuts, while recognizing that tariffs at the lower end of the range will likely still bring some inflationary pressures in the US. Europe's pledge to spend more on infrastructure and defense is a positive, bolstered by Germany easing its limits on government borrowing. Whether Europe and other regions can retain the investment that flowed out of US equities remains to be seen, particularly if the Trump administration quickly follows through on its pro-growth agenda of deregulation, incentives for US-domiciled production, and lower taxes. In this respect, the US fiscal situation warrants investor attention and guides our nuanced view on US fixed income, as any mismatch between political objectives and bond market expectations risks another round of volatility.

As we enter the second half of the year, we continue to emphasize the importance of diversification across assets and geographies, including assets that enhance stability, via positions in cash, gold, and other uncorrelated assets. In addition, we recommend remaining alert for opportunities in drawdown periods to add to risk assets at attractive pricing.

Macroeconomic Outlook

Much Has Changed, But Not Everything

Simona M. Mocuta
Chief Economist

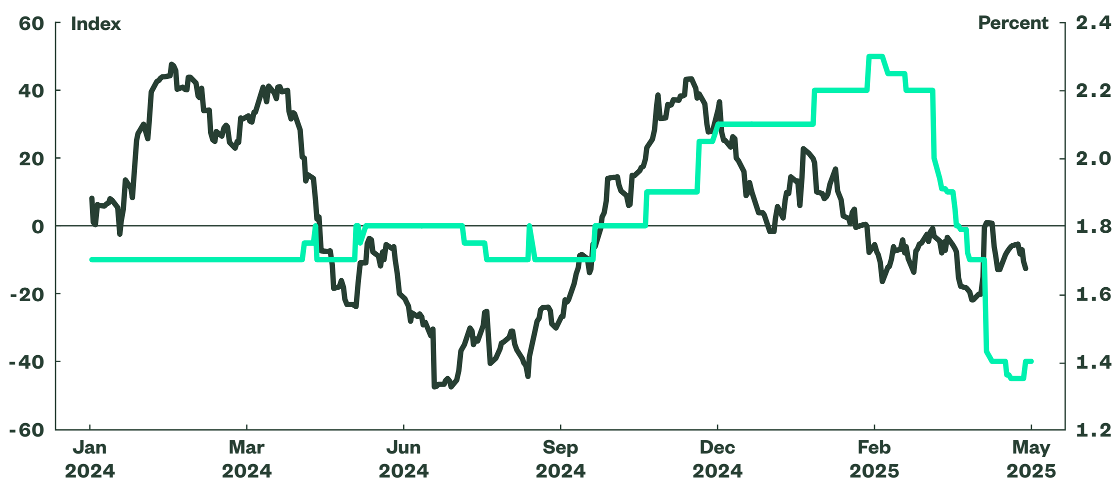
In our Global Market Outlook for 2025, we cautioned that trade policy changes could threaten the soft-landing scenario we envisaged. The April 2 tariff announcement has certainly been disruptive. Much has changed — in both economies and markets — but not everything. We still do not anticipate a US recession, our European growth forecasts are little changed, and global growth is expected to hover near trend.

Why haven't our forecasts changed more materially? Firstly, and most importantly, is the assumption that there would be tariff de-escalation. Despite disruptive tactics, the US administration has displayed a willingness to adjust course in response to negative feedback. The 90-day delay in reciprocal tariff implementation (initially excluding China) is just one example; the changes to the Ukraine minerals deal that ultimately allowed for its signing is another. The start of US-China talks suggests the potential for significant easing in that tit-for-tat tariff war as well. This should not be that surprising a turn of events as tariffs are ultimately a means, not an end. After all, the US needs the world, the world needs the US, and we all need trade. So, rather than going from bad to worse — the prospect of which had so unsettled financial markets — there is scope for the global trade backdrop to improve materially in the second half of 2025. But uncertainty is set to be a feature for some time.

Figure 1
Will Gloomy Expectations Materialize?

United States, Leading Indicators, Citi, Economic Surprise Index, LHS

2025 Annual Average Real GDP Growth, Bloomberg Consensus Forecast, RHS



Source: Macrobond, Bloomberg Consensus Forecasts, as of May 9, 2025.

Secondly, something especially important and positive has emerged out of the chaos and commotion of the last few months: the reform of the German debt brake. We had long argued for just such a change; that it is finally happening under duress does not negate its impact. It speaks to a narrowing of the US growth outperformance and a more balanced global growth distribution, both of which are welcome. This is not simply about Europe outperforming the US; it is about Europe finally outperforming its own recent history.

Thirdly, trade uncertainty meets policy support elsewhere. Tariffs have an inflationary effect overall, but they primarily impact relative prices. In a world where demand is scarcer than supply, and where the consumer wallet does not expand (either through government transfers or reduced savings), US tariffs intensify downward pressure on inflation elsewhere. We expect most developed market central banks (including the US Federal Reserve (Fed)) and many emerging market central banks to continue to calibrate interest rates lower. Japan remains the main exception.

The balance of risks has changed more dramatically than our forecasts. It was clear before April 2 that risks to both sides of the Fed's dual mandate (of full employment and stable prices) had risen. The path to a soft landing was quite wide three months ago; it has since narrowed considerably. But it remains open.

Next Stop, Fiscal Stress?

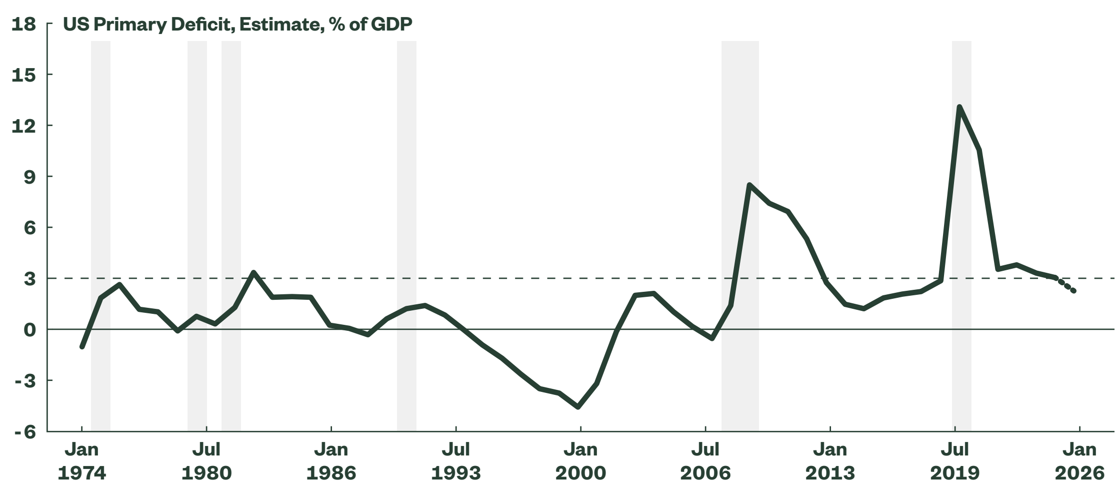
Elliot Hentov, Ph.D.
Head of Policy
Macro Research

Change has also been a feature of the geopolitical landscape in 2025. The broad direction of travel has been consistent with our December outlook, even if some events have evolved at a different pace and manner than anticipated. We had advised investors to be wary of the fallout from real wars, trade wars, and fiscal wars — the first two have already featured heavily in world events this year. First, the United States withdrew security commitments from allies and forced the beginning of large-scale rearmament in Europe. Second, the US launched a profound reset of its global trading relations, injecting volatility into markets and delivering a stagflationary impulse at home and a deflationary one abroad. While the real economy is still working through the transmission of those drivers, the next major policy theme has moved into focus — US budgeting.

Normally, the range of market outcomes linked to US fiscal planning is narrow. However, following the policy volatility in the early months of the Trump administration, passing a US government budget will be a major global macro event. Policy uncertainty has affected consumer confidence and business investment intentions and triggered a reallocation of global capital out of the United States. Not only did global investors reduce an overweight position in US equities, but they also sought out alternative safe haven assets to US government bonds. The consequences were a weaker dollar, rising gold prices, and US bond yields widening versus other high-grade sovereigns (e.g., Germany).

Although the tariff pause has eased immediate concerns, the essential point here is that the market backdrop is very different from previous decades of US fiscal policy. The macro circumstances are equally fraught with risk. Figure 2 shows the US primary deficit as a share of GDP through the last 50 years — the deficit is now close to 3% with current policy settings indicating only a modest leveling off. This would leave it well above historical norms.

Figure 2
US Primary Deficit as Share of GDP 1976–2025*



Source: State Street Global Advisors Macro Policy; US Congressional Budget Office, as of May 2025. Shaded areas denote recession periods. *Deficit before net-of-interest payments.

Under such circumstances, the bond market will be sensitive to US debt sustainability considerations. At the same time, the Trump administration has promised a pro-growth agenda centered around fiscal stimulus. In particular, the plan envisions preserving the 2017 Trump tax cuts with additional corporate tax reductions for US-domiciled production, 100% bonus depreciation, R&D expensing, and some smaller personal income tax cuts. The implications of these measures would be an expansion in the deficit — how significant it actually is remains to be seen.

The mismatch between political objectives and bond market expectations risks another round of volatility. In addition, the narrow Republican majority in Congress makes the budgeting process vulnerable to individual lawmaker demands, which could widen the gap between market views and political realities. Finally, the term 'fiscal wars' suggests other countries will respond during this global slowdown. Fiscal expansions in Europe and China mean the global supply of safe assets is growing faster than global demand. Highly indebted sovereigns (like the US) will be confronted with market-imposed limits on fiscal largesse. The US budget thus seems likely to deliver minimal fiscal thrust and the question now is whether this outcome results from market stress or precedes it.

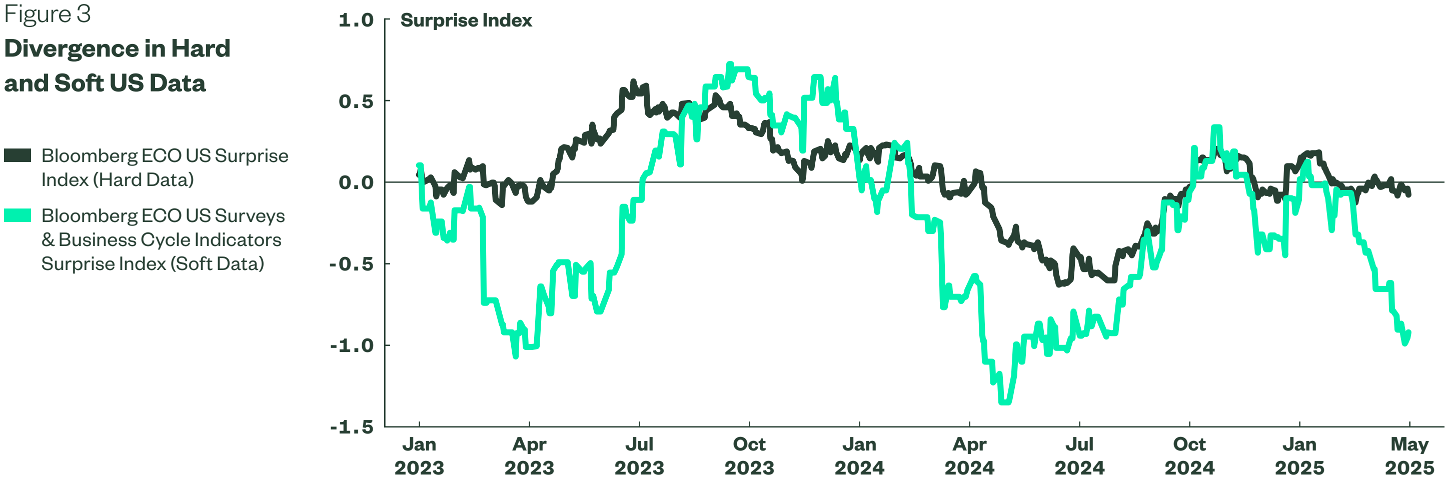
Equity Outlook

An Easing of Headwinds

Dane Smith
Head of North American Investment Strategy & Research

Uncertainty clouds the equity market outlook as policy from Washington, as well as broader geopolitical developments, leaves unanswered questions. For now, sentiment continues to outweigh market fundamentals, but what if the worst of the trade war really is behind us? The question then is whether the capital outflows we witnessed from US equities will return, or whether non-US markets can close the profitability gap sufficiently to retain those funds. The divergence between hard and soft economic indicators (Figure 3) raises questions about the road ahead, and where between them we will eventually end up.

Figure 3
Divergence in Hard and Soft US Data



Source: Bloomberg Finance L.P., as of May 1, 2025.

The S&P 500 Index (SPX) has been on the front line of investor sentiment amid the protectionist shift in the United States, but the pain from tariffs (wherever they finally settle) will transmit throughout the global market economy. After all, US consumption accounts for about one-third of global goods and services. If demand worsens and margins compress, corporate profits will wane. It seems unlikely that consumption in Europe, Japan, China, and other EM markets can fill the void of excess capacity as confidence in these regions is weak amid the threat of layoffs. However, if a prospective US/China trade deal is close to an eventual reality, the second half of the year could prove fruitful for equity investors, especially as the 2026 midterm elections in the US should provide an impetus to deliver more favorable policy and ease the headwinds.

Fundamentals do not favor European equities, despite their strong start to 2025. The cyclical nature of the European market offers some reprieve from an expensive and concentrated US market (albeit less so after the drop in Magnificent 7 fortunes). But while Europe trades on cheaper valuations (recent performance has brought its price/earnings (PE) multiple into line with its five-year average), earnings fell more than 5% in Q1 (with 67% of companies reporting) and one-year (next twelve months (NTM)) earnings growth expectations have slumped to just under 2% — the lowest amongst developed regions.

By contrast, the US is hovering around a 9% earnings growth estimate in 2025. As of May 9, SPX constituents had reported over 13.5% earnings growth for Q1. Additionally, valuations are now around 20x NTM PE (right around their five-year average). Sluggish demand could impact margins, but if companies limit CapEx due to uncertainty, they could use their balance sheet cash hoards for share buybacks. For example, Apple recently announced a $110bn buyback — the largest in US history.

In the Asia Pacific (APAC) region, China's robust performance this year in part reflects their progress with AI, threatening US exceptionalism and the moat US companies had supposedly built to justify lofty valuations. Elsewhere, the MSCI Japan Index is trading around 14x PE, while earnings growth in the APAC region remains positive for 2025 at just under 8%; this is creating some resiliency despite negative realized Q1 earnings growth of -6.0%. When adjusting its valuation for earnings growth, the price/earnings-to-growth (PEG) ratio today sits at 1.7x, the highest it's been since November 2023, indicating that the region is getting relatively more expensive.[1]

If tariffs were to give way to deregulation and TCJA[2] extensions, despite the estimated $4.1tn fiscal cost, consumer sentiment can improve from near-Covid lows and investors gradually re-embrace fundamentals. In this scenario, we believe the US is better positioned to outperform due to earnings resiliency and superior balance sheets. As noted, many investors moved to close underweight positions in Europe and APAC at cheap valuations, but the run-up in performance now makes this less compelling an option. Irrespective of regional positioning, we continue to favor quality companies that offer long-term earnings growth potential as well as stability in an uncertain market environment.

Fixed Income Outlook

A Favorable Environment for Bonds

Desmond Lawrence
Senior Investment Strategist

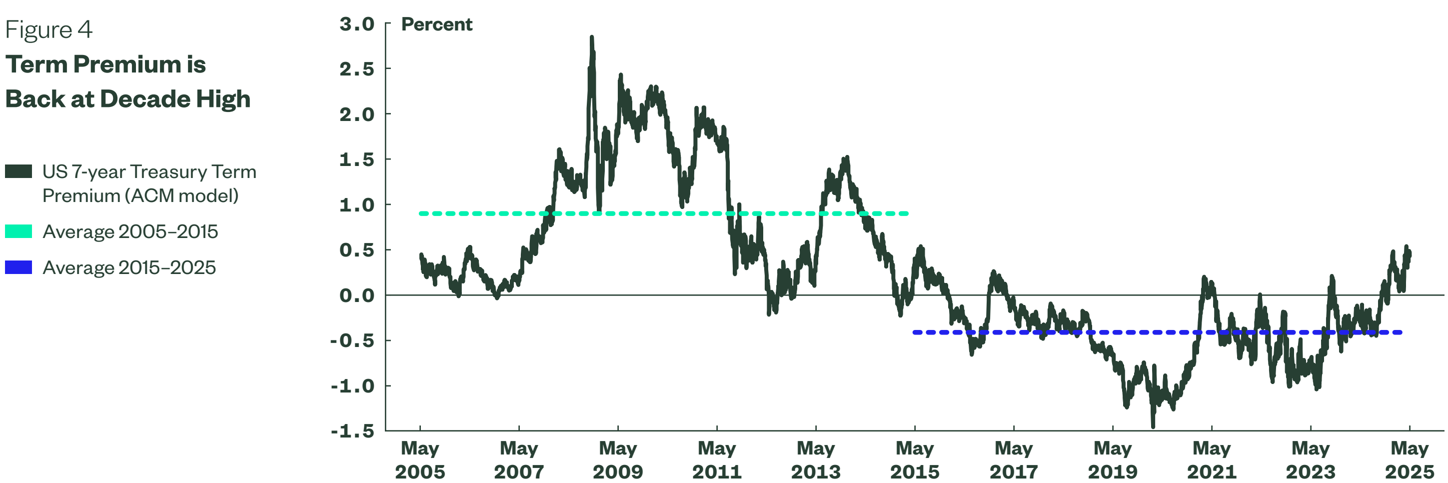
Notwithstanding a turbulent start to 2025 for many bond markets, we retain our constructive view on fixed income assets. We continue to see more value in rates over credit, with the most rewarding prospects in advanced economy sovereign debt. Other segments, such as spread and higher-risk exposures, present return potential — but at a price as economic output slows further. Those recent market gyrations reinforce our note of caution in an otherwise favorable setup.

Within rates, policy uncertainty suggests limiting regional bets. However, our duration positioning differs across regions; we favor the short/intermediate end of the Treasury curve over the long end, while we like the long end more outside the US.

In the US, the proposed tariffs will keep a lid on growth and serve to underline the latent value in US Treasuries. Mixed signals on inflation have emerged however, with some consumer-based surveys revealing a sharp rise in price expectations. Tariffs will undoubtedly add to US inflation, but we believe this impulse should be brief and outweighed by the prospect of a more enduring slowdown in the US labor market. This softening growth with controlled inflation dynamic will allow the Fed to get comfortable with more rate cuts than currently priced to end-2025 and unlock value for investors. This is why we favor short and intermediate positions in US Treasuries where rate cuts and rolldown will be captured.

The long end of the US curve is quite different given concerns around large and persistent budget deficits. These concerns have been priced in to a degree, as investors in these segments are now receiving the best compensation for interest rate risk in over a decade (Figure 4). But investors could demand significantly higher compensation at longer maturities if fiscal matters remain unaddressed — this is not our core scenario but a key tail risk for the long end.

Figure 4
Term Premium is Back at Decade High



Source: Federal Reserve Bank of New York, Adrian, Crump, and Moench (ACM) model data as of 19th May 2025.
Past performance is not a reliable indicator of future performance.

In contrast, we prefer to take longer duration in non-US government bond markets. Across many European and APAC markets, the proposed US tariffs are also likely to exacerbate already weak output growth, with the effect of further dampening inflationary pressures. This scenario allows most of the major central banks there to further loosen monetary policy, which in turn leads to lower short-dated bond yields, steeper yield curves, and enhanced rolldown prospects. This underpins our view that investors should embrace sovereign duration in these regions. Of course, there are nuances, with the Bank of Japan the exception among the G7 nations as it leans towards tighter policy. Nevertheless, the potential damage from tariffs to Japan's economy should not be underestimated and Japanese Government Bonds (JGBs) have remained reasonably well correlated with their G7 peers.

Investment grade (IG) credit yields are relatively attractive, but spreads remain near historic lows, reflecting an environment where risk appetite remains strong despite growing macro uncertainties. This policy uncertainty along with bearish momentum signals underpins an underweight to IG. We are more sanguine on high yield credit because of the recent improvement in the maturity profile. We maintain a modest CMBS overweight, tilted up in quality, and an overweight to both benchmark and structural risk targets in MBS given supportive fundamentals and relative value versus investment grade credit.

Hard currency emerging market debt can also benefit from a positive environment for US Treasuries. The local currency segment should gain from lower domestic rates as well, although this will be more nuanced from here and may take some time. A weaker US dollar would be a strong catalyst for outperformance, but this raises hedging issues for non-dollar investors.

In conclusion, we suggest that investors be prepared for volatility while remaining aware of the attractive entry points that such moments can bring.

Commodity Outlook

Gold Continues to Shine

Tyhesha M Harrington
Senior Portfolio Manager

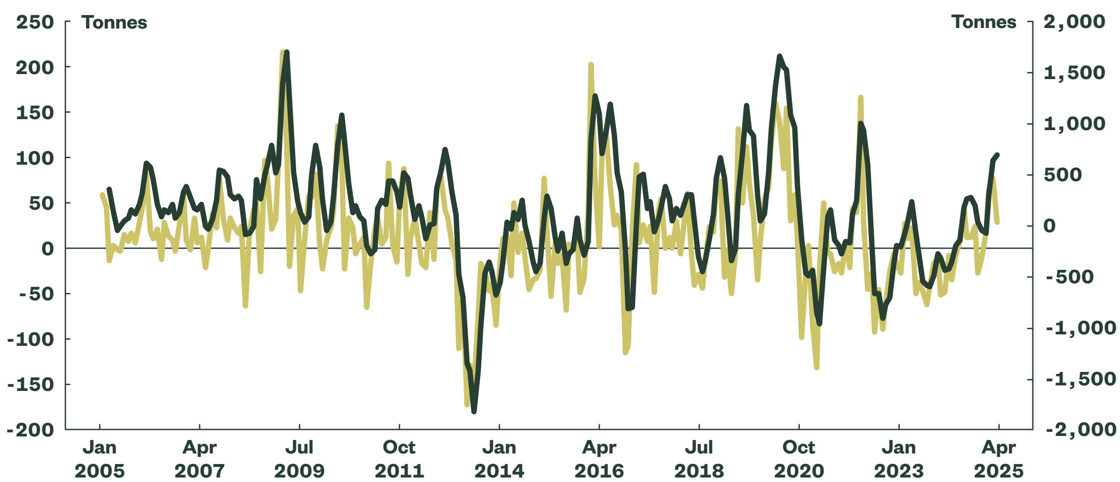
Commodities have enjoyed a good, if volatile, start to the year. Overall returns were positive[3] for the first four months against a backdrop of new tariffs, global economic growth concerns, OPEC+ production decisions, and a weaker US dollar. Looking forward, our soft economic landing base case is supportive of the broader commodities complex in the near term, though there may be divergence among subsectors based on idiosyncratic supply/demand factors and overall sensitivity to trade and growth.

We hold an optimistic view on precious metals, and gold in particular. The main forces that have driven gold prices higher, such as geopolitical risk hedging and central bank purchases, are still active. The ongoing uncertainty and volatility in financial markets create an environment where gold can continue to perform well as a safe-haven asset. The potential de-dollarization trend and strong physical demand led by central banks in emerging markets are also expected to continue to support gold prices. China demand should rebound in Q2 as local price premiums have spiked on the back of the trade war. Gold also has a history of performing well when yields decline although that relationship has been weaker since mid-2021.

Demand for physically backed bullion ETFs should stay on the front foot, albeit moderating from the feverish Q1 inflow pace. The demand delta of gold ETF buying is significant as it suggests an end to a 3.5-year de-stocking cycle for the sector (Figure 5).

Figure 5
Gold ETF Monthly Inflow/Outflow and Annualized 3-Month Trend

Annualized Three-Month Trend (Tonnes), RHS
Global Gold ETF Monthly Flows (Tonnes), LHS



Source: Bloomberg Finance L.P., State Street Global Advisors, as of April 30, 2025.

On the other hand, the energy sector has displayed mixed performance in 2025 to date. Natural gas prices climbed due to a colder Northern Hemisphere winter, supply disruptions, and increased global LNG demand (especially in Europe). However, crude oil prices are barely in positive territory YTD amid an adverse demand shock from higher US trade tariffs, which could weigh on transport fuel consumption. Moreover, increased OPEC+ production may also keep oil balances in surplus, though prices might have bottomed in the short term on improved sentiment for a US-China trade deal.

Those headwinds also feed into an uncertain outlook for the industrial metals complex. However, tight supply and demand fundamentals, along with an eventual improvement in manufacturing activity and supportive policies in China, underpin a cautiously optimistic outlook for the sector.

Notwithstanding strong gains in soft commodities like coffee, which have been driven purely by weather-related supply disruptions, the overall outlook for the agricultural sector is negative due to declining grain prices and limited upside potential from surplus and competition.

Although the outlook for inflation remains uncertain, with the trade war providing both inflationary and disinflationary forces, commodities may offer a viable strategy for mitigating its impact.

Contributors

Jennifer Bender, Ph.D.,
Chief Investment Strategist

Altaf Kassam, CFA
EMEA Head of Investment
Strategy & Research

Michael J Solecki, CFA
CIO, Fundamental Equity

Matthew Nest, CFA
Global Head of Active Fixed Income

Aakash Doshi
Head of Gold Strategy

Kamal Gupta, CFA, FRM
Investment Strategist

Endnotes

1 All valuation ratios are from Bloomberg as of May 9, 2025.

2 TCJA — Tax Cuts and Jobs Act 2017.

3 Return of 3.6% (Jan1–Apr 30, 2025), as measured by the Bloomberg Commodities Total Return Index (in USD).

About State Street Global Advisors

For over four decades, State Street Global Advisors has served the world's governments, institutions, and financial advisors. With a rigorous, risk-aware approach built on research, analysis, and market-tested experience, and as pioneers in index and ETF investing, we are always inventing new ways to invest. As a result, we have become the world's fourth-largest asset manager* with US $4.67 trillion† under our care.

* Pensions & Investments Research Center, as of December 31, 2023.
†This figure is presented as of March 31, 2025 and includes ETF AUM of $1,553.58 billion USD of which approximately $106.42 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

ssga.com

Marketing communication

State Street Global Advisors Worldwide Entities

Important Risk Information

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA's express written consent.

The trademarks and service marks referenced herein are the property of their respective owners. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data and have no liability for damages of any kind relating to the use of such data.

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor.
All information is from SSGA unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

The views expressed in this material are the views of State Street Global Advisors through the period ended May 30, 2025 and are subject to change based on market and other conditions. This document contains certain statements that may be deemed to be forward-looking statements. All statements, other than historical facts, contained within this article that address activities, events or developments that SSGA expects, believes or anticipates will or may occur in the future are forward-looking statements. These statements are based on certain assumptions and analyses made by SSGA in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate in the circumstances, many of which are detailed herein. Such statements are subject to a number of assumptions, risks, uncertainties, many of which are beyond SSGA's control. Readers are cautioned that any such statements are not guarantees of any future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the applicable regional regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

The information provided does not constitute investment advice as such term is defined under the applicable regional regulation and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell any investment. It does not take into account any investor's or potential investor's particular investment objectives, strategies, tax status, risk appetite or investment horizon. If you require investment advice you should consult your tax and financial or other professional advisor.

All material has been obtained from sources believed to be reliable. There is no representation or warranty as to the accuracy of the information and State Street shall have no liability for decisions based on such information.

Investing involves risk including the risk of loss of principal.

Past performance is not a reliable indicator of future performance.

Diversification does not ensure a profit or guarantee against loss.

All the index performance results referred to are provided exclusively for comparison purposes only. It should not be assumed that they represent the performance of any particular investment.

Equity securities may fluctuate in value in response to the activities of individual companies and general market and economic conditions.

Companies with large market capitalizations go in and out of favor based on market and economic conditions. Larger companies tend to be less volatile than companies with smaller market capitalizations. In exchange for this potentially lower risk, the value of the security may not rise as much as companies with smaller market capitalizations.

Investments in small-sized companies may involve greater risks than in those of larger, better known companies.

Commodities investing entail significant risk as commodity prices can be extremely volatile due to wide range of factors. A few such factors include overall market movements, real or perceived inflationary trends, commodity index volatility, international, economic and political changes, change in interest and currency exchange rates.

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).

There are risks associated with investing in Real Assets and the Real Assets sector, including real estate, precious metals and natural resources. Investments can be significantly affected by events relating to these industries.

Asset Allocation is a method of diversification which positions assets among major investment categories. Asset Allocation may be used in an effort to manage risk and enhance returns. It does not, however, guarantee a profit or protect against loss.

Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates raise, 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. Investing in high yield fixed income securities, otherwise known as "junk bonds", is considered speculative and involves greater risk of loss of principal and interest than investing in investment grade fixed income securities.

These lower-quality debt securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.

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

ID2890400-7993738.2.1.GBL.RTL 0525
Exp. Date: 06/30/2026