

» *Fisch View*

*July's topic:
„Tailwinds for financial markets“*



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Tailwinds for financial markets

- An ongoing increase in money creation within the US banking system is contributing to a rise in global market liquidity, providing tailwinds for both equity and credit markets.
- Simultaneously, the moderately cooling economy in the US and Europe currently poses no immediate threat to markets; on the contrary, it is helping to ease upside pressure on inflation and interest rates.
- As a result, we maintain a neutral to slightly overweight positioning with respect to risk and duration exposure.

Overall economic situation

The significantly heightened uncertainty surrounding US trade policy is now also weighing on consumer sentiment in the US, which had previously supported economic growth. This is reflected in a decline in the reliable and meaningful “Weekly Economic Index” published by the Federal Reserve Bank of St. Louis. Meanwhile, the manufacturing sector in the US, which has been weak for some time, remains under pressure and continues to show no sign of the positive effects the US administration had hoped for from its new trade policy. Nonetheless, there is currently no indication of recession in the US, Europe or China. Ample global liquidity continues to provide substantial support for the time being.

Recent developments: Abundant liquidity provision

- Abundant liquidity provision remains the principal driver behind current positive trends in global financial markets and the broader economy. The increase in liquidity is primarily due to growing money creation in the US banking system and expansionary monetary measures by the People's Bank of China, both of which are having global effects.
- The muted market reaction thus far to the severe escalation of the Israel-Iran conflict underlines the market’s technically sound and liquidity-backed structure.
- However, there are latent risks that could become significantly disruptive in the medium term and suppress the current liquidity-driven market upswing. These include soaring US government debt, elevated inflation expectations, and weakening global economic growth driven by mounting uncertainties around international trade and capital flows. From Q3 onwards, a wave of debt refinancing looms – both public and private – often referred to as the “Debt Maturity Wall”.

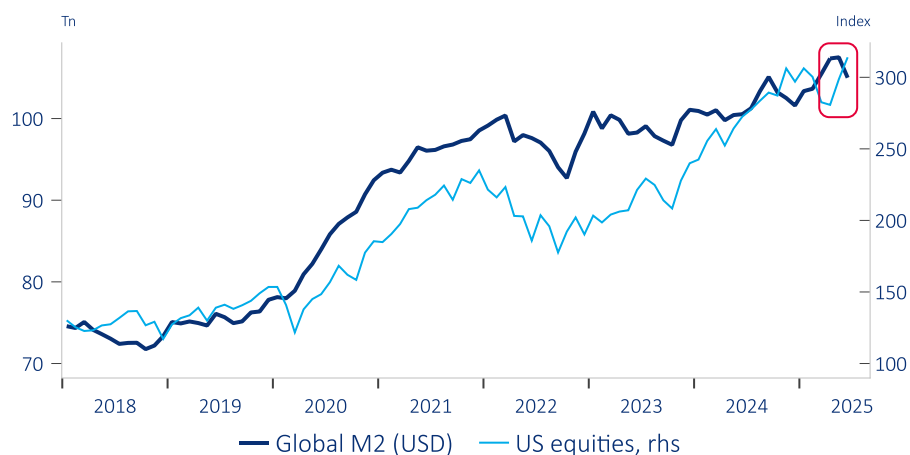
➔ **On the radar: Global liquidity continues to support financial markets – corporate and convertible bonds among the main beneficiaries (page 6)**

Overview & outlook: Disruptive factors yet to take hold

- While high global liquidity is still having a clearly positive effect on both financial markets and global growth, the aforementioned disruptive factors (US government debt, debt maturity wall, rising inflation expectations, global trade tensions) must be watched closely. Historically, rallies driven solely by liquidity – such as the current one – have not been sustainable enough to support the economy over the long term. At any time, “money trap” scenarios could emerge in which consumers, despite abundant liquidity, unexpectedly reduce consumption and increase savings.
- We are already seeing early signs that disruptive factors are gaining influence, while liquidity momentum is beginning to wane. Indicators include the weakening US dollar and its decoupling from long-term US Treasury yields. This combination points to a potential capital outflow from the US, which could trigger a self-reinforcing downward spiral. This would likely push US interest rates even higher and cause inflation to re-accelerate – with the potential to spark global market turbulence. In that case, President Trump may indeed get the weak dollar he desires, albeit at a high cost.
- At the same time, signs of economic cooling in the US are becoming more evident. Notably, the previously strong consumer sector now appears to be coming under pressure. Retail sales and consumer spending are weakening. The manufacturing sector remains sluggish and seemingly unresponsive to the protective trade barriers imposed by Washington. The GDPNow indicator for the Eurozone is also softening. That said, no recession is yet in sight for either region.
- The “Debt Maturity Wall” is drawing nearer. Over the next 12 months, the US Treasury must refinance approximately USD 10 trillion. Global corporates also face significant refinancing needs, which could lead to market stress.

» The “debt maturity wall” is approaching

Chart: Global liquidity still increasing, but momentum fading



Sources: Macrobond, Fisch Asset Management

Positioning: Neutral to slightly overweight in risk exposure

» Closely monitor potential stress indicators

- For now, the disruptive factors mentioned above pose no immediate threat to financial markets. In particular, the reduction in Fed liquidity due to ongoing quantitative tightening (QT) is currently being offset by increased issuance of T-bills by the US Treasury. T-bills are “cash-like” instruments and thus raise liquidity in the financial system. In effect, the US Treasury is taking on a role traditionally played by the Fed, making it more difficult for the central bank to implement monetary policy effectively. In addition, the Bank of Japan (BoJ) has not yet tightened policy to a degree that would significantly affect global money supply.
- We are therefore maintaining a neutral to slightly overweight stance in both risk exposure (equity sensitivity of convertibles and credit exposure in corporate bonds) and duration.
- Nevertheless, we are monitoring potential warning signs and stress indicators closely. Of particular importance is the US dollar. Further weakening against the Japanese yen would be a serious warning signal. If the yen breaks below the 140 threshold against the dollar, large capital outflows from the US to Japan could follow. Other key early indicators include 30- and 40-year Japanese government bond yields and US money market spreads (SOFR vs. Fed Funds).
- Should any of these stress indicators flash warning signs, we would begin to reduce risk exposure gradually. In such a scenario, the behaviour of central banks – particularly the Fed, BoJ, and PBoC – will be crucial. In a market stress situation, rapid and decisive intervention (i.e., rate cuts, quantitative easing, direct liquidity injections) is likely, and would offer short-term market stabilisation.

<i>Return drivers</i>	US	Europe	Japan	Asia ex-Japan	LatAm	CEEMEA	Key:
Equities	o	+	o	o	o	o	
Gov. Bonds	o ↑	o	-				
Credit IG (Spreads)	o	o		o	+ ↑	+ ↑	
Credit HY (Spreads)	o	o		o	+ ↑	o	
<i>Total return</i>							
Convertibles	o	o ↓	-	+			
Credit IG	+ ↑	+ ↑		+ ↑	+ ↑	+ ↑	
Credit HY	+ ↑	+ ↑		+ ↑	+ ↑	+ ↑	
	PrecMet InduMet Energy						
Commodities	+	o	o				

Notes regarding the table: The table summarises the model results for the total return of convertible bonds and credit investment grade and high yield, which are a function of the listed return drivers. Changes from prior month are indicated with ↓ or ↑, i.e. "O ↓" means that the output has weakened from a prior value of + or ++. The methodology for calculating model outputs, and how the various pieces fit together to form the big picture, is explained [here](#). Within government bonds, we take German Bunds into account for Europe.

Cross asset class preferences

This table combines top-down views with bottom-up analysis at the portfolio level.

	Most preferred	Least preferred
Convertible Bonds	<ul style="list-style-type: none"> – Software (Cybersecurity) – Semiconductor (AI-related) – Healthcare – CBs with high convexity – Bond-like CBs with quality credits and attractive yields – Balanced deep investment grade Chinese tech with high convexity 	<ul style="list-style-type: none"> – Consumer discretionary – Unprofitable, early stage, expensively valued IT and biotech – Weak credit quality and/or liquidity – Cryptocurrency-related names
Global IG Corporates	<ul style="list-style-type: none"> – Healthcare, financials, TMT sector – USD- and EUR-denominated issues – BBB-rated bonds 	<ul style="list-style-type: none"> – Transportation, real estate, utilities – GBP- and CAD-denominated issues – AA/A-rated bonds
Global Corporates	<ul style="list-style-type: none"> – Healthcare, financials, consumer goods, autos – Investment grade – Developed markets 	<ul style="list-style-type: none"> – Transportation, energy, chemicals, utilities – High yield – Emerging markets
Global High Yield	<ul style="list-style-type: none"> – Capital goods – Health care – Telecommunications 	<ul style="list-style-type: none"> – Transportation – Financial services – Insurance
Emerging Markets - Defensive	<ul style="list-style-type: none"> – LatAm (Chile, Peru), Eastern Europe, Africa – Defensive sectors, oil & gas – Maturities 7-10 years 	<ul style="list-style-type: none"> – High beta Asia (India, Indonesia) – Industrials
Emerging Markets - Dynamic / Opportunistic	<ul style="list-style-type: none"> – LatAm (Brazil, Colombia), Eastern Europe – BBB & BB-rated bonds – Defensive sectors, oil & gas 	<ul style="list-style-type: none"> – Asia, Middle East – Investment grade maturities < 3 years – C-rated bonds

Note: Preferred sectors/regions may differ between asset classes owing to respective performance drivers. In particular, equity exposure is the key performance driver for convertible bonds and is not relevant for corporate bonds.

On the radar: Global liquidity boosts markets – corporate and convertible bonds as beneficiaries

Corporates in strong shape

Despite rising government debt and interest burdens, corporates are in better shape than they have been in years. Credit quality has improved significantly, especially in investment-grade names.

According to Bank of America's Global Fund Manager Survey, investors rate corporate balance sheets as the strongest since 2016. We observe a favourable combination of rising revenues and earnings, while debt growth and shareholder payouts are slowing. This creates a supportive environment for credit investors.

The improved fundamentals are also reflected in ratings – across both investment-grade and high-yield segments. Among high-quality USD bonds, the share of BBB-rated bonds has declined since its 2018 peak, while the share of the weakest IG rating segment (BBB-) has hit a record low of 8.6%.

» Share of weakest IG rating segment at record low

Convertibles poised for a comeback

Convertible bonds are likely to attract renewed investor interest in the coming months. Issuers of convertibles often exhibit strong earnings growth, with an average expected profit growth of 18.6% over the coming years – nearly 70% higher than the broader equity market.

Another positive trend is the increase in issuance volume and diversity of convertible issuers. These instruments are now being issued by companies of all sizes and sectors, enhancing diversification opportunities.

Valuations are also attractive: convertibles offer exposure to growth at a significantly lower price. They currently trade at a more than 20% discount in price/earnings-to-growth (PEG) ratios compared to the broader equity market. This allows investors to access growth at a more reasonable valuation. Historically, such valuation advantages have often led to convertibles outperforming equities – a pattern we may well see again this year.

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