

06/2025

Market Snapshot

Equity Snapshot

United States

US equities delivered solid gains in June, with the S&P 500 Index hitting a fresh all-time high, buoyed by better-than-expected corporate earnings. Stocks rose early in the month on easing Sino-American tensions, after the US and China agreed a “framework” to implement the consensus reached last month in Geneva, including US access to China’s critical rare earth minerals and magnets. However, US stocks got caught up in the global sell-off after Israel launched a series of strikes on Iran, with oil prices spiking in the aftermath of Washington’s subsequent air strikes on Iranian nuclear facilities, before rallying once more as geopolitical tensions in the Middle East de-escalated.

While the US economy unexpectedly shrank by a downwardly revised 0.5% on an annualised basis in the first quarter, recessionary risks continued to ease in June, with the Federal Reserve Bank of Atlanta’s GDPNow running estimate signalling an increase in growth to 2.9% for the current quarter. Economic fundamentals broadly remained robust. Non-farm payrolls rose by 139,000 in May, slightly slower than April’s downwardly revised gain of 147,000, while the unemployment rate remained unchanged at 4.2%, indicating that the US labour market is relatively stable. Elsewhere, US wage growth rose by 3.9% in May from a year ago, ahead of consensus estimates, but US retail sales fell by more than expected in May, declining by 0.9% from a downwardly revised dip of 0.1% in April, as tariff-related anxiety took its toll.

Headline inflation in the US rose to 2.4% in the 12 months to May, up from 2.3% in April, while core inflation, excluding volatile food and energy prices, remained steady at 2.8%. The Federal Reserve maintained its wait-and-see approach, holding benchmark lending rates steady at 4.25%–4.5% for the fourth consecutive meeting, as expectations of a deteriorating economic backdrop, including increasing inflation, higher unemployment and slowing GDP growth, have yet to make a meaningful dent in the official data releases. However, the Conference Board reported that its Consumer Confidence Index fell by 5.4 points to 93.0 in June after recording a 12.3-point rise in May.

Europe

European equities fell slightly in June. Earlier gains were offset by negative tariff sentiment, as a trade deal between Washington and Brussels remains elusive as the 9 July deadline approaches; failure to reach a trade deal will result in a 50% tariff on all goods imported to the US – the European Union’s biggest export partner – which will have a crippling impact on the bloc, particularly Germany. Escalating geopolitical tensions in the Middle East also weighed on sentiment, although the month ended on a more positive note following a ceasefire between Israel and Iran. At a sector level, the consumer sectors fared worst, while energy rose the most.

Euro-zone GDP increased by an upwardly revised 0.6% in the first quarter of 2025 compared with 0.3% the previous quarter, marking the fifth consecutive quarter of expansion. Meanwhile, the flash estimate of the HCOB euro-zone composite purchasing managers’ index (PMI) remained unchanged in May with a reading of 50.2 (above 50 signifies growth). Inflation in the euro zone fell

below the European Central Bank's (ECB's) 2% target to 1.9% in May, down from 2.6% a year ago and from 2.2% in April. The ECB cut its key interest rate by 25 basis points (bps) to 2.0% but signalled that it may be nearing the end of its rate-cutting cycle. The central bank cut its inflation forecast for 2025 to 2.0% from 2.3% in March but left its growth outlook unchanged at 0.9% for this year.

Asia

Asia ex Japan equities rose in June, even as geopolitical jitters continued to linger in the background. South Korea was the strongest market, boosted by post-election reform optimism after the new president was inaugurated. A rally in global technology stocks also buoyed the market as well as leading to gains in Taiwan. Chinese equities benefitted from easing trade tensions with the US. Shares rose on news that the US and China had restored their trade truce, with the two sides agreeing a "framework" to implement the previous consensus reached in Geneva. Indian equities also finished the month moderately higher. June delivered a series of favourable developments including softer inflation data, quarterly GDP growth at 7.4% year-on-year (above consensus expectations of 6.8%), a deeper than expected 50 basis point cut to the repo rate, and a 100 basis point reduction in the Cash Reserve Ratio (CRR). Meanwhile, ASEAN equities generally fell as investors rotated into safe-haven assets amid soaring tensions in the Middle East. In Thailand the index hit a five-year low amid political turmoil as the country's Constitutional Court suspended the prime minister.

Bond

June was a mixed month for global bonds, with US, UK and Japanese bonds rallying while euro-zone bond returns were broadly flat. US bonds were boosted by growing hopes for US rate cuts and weaker-than-expected inflation data, while yields on euro-zone government bonds rose after the European Central Bank (ECB) cut its key interest rate by 25 basis points and suggested it may be nearing the end of its rate-cutting cycle. In general, corporate bonds outperformed sovereign debt.

Outlook

In June, US indices reached new highs while many European stocks underperformed, weighed down by macro uncertainty and geopolitical tensions. Still, Quality Growth remains well supported by historically attractive valuations, still the case for our global holdings but especially in Europe, where valuations are widening versus the US. The region is also experiencing increasing fiscal and monetary stimulus, including Germany's boost to defence and infrastructure spending and the ECB's further decrease of interest rates to just 2.0% in June.

Investors have been gradually tuning out tariff noise, however currency has now emerged as a more immediate challenge, with a significant weakening of the US dollar in recent months. Our companies generally have strong pricing power, sell critical products and services that are well integrated into production processes, and benefit from geographically diversified sales and manufacturing. We believe they will be relatively resilient, although several are flagging some headwinds. Encouragingly, we note a rise in M&A dialogue that can boost growth, with numerous Management teams signaling healthy pipelines and renewed strategic intent.

We are clearly moving past the semiconductor cycle trough. Early signs of stabilisation in memory and analog demand, combined with ongoing momentum in AI infrastructure, are now broadly lifting sentiment across IT infrastructure. Our funds have broad exposure to this upswing through investments in leaders in the semiconductor manufacturing, packaging, and equipment subsectors. Innovation is moving rapidly across adjacent domains, and we are closely monitoring emerging themes such as agentic AI and stablecoins for potential disruption. These structural shifts make this a highly dynamic and rewarding environment for active stock pickers.

As we approach the Q2 earnings season, expectations appear fairly low. Many listed companies have delivered subdued business outlooks, particularly following the 'Liberation Day' turmoil in April, while analysts have been eagerly revising their earnings estimates downwards. We see this as an attractive setup for our high-Quality, structurally growing companies to surprise on the upside. Our investment discipline remains unchanged: we continue to favour companies with high returns on capital, pricing power, and strong balance sheets, traits that have helped our holdings stay resilient as macro conditions evolve.

As the macro backdrop remains relatively benign, we believe the stage is set for high-Quality global equities to continue compounding through market noise and deliver attractive long-term returns. In this environment, we should see our relatively more resilient companies shine with Q2 earnings season ahead being a valid first test.

Source: Allianz Global Investors, as of 30 June 2025 unless otherwise stated.

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