

07/2025

Market Snapshot

Equity Snapshot

United States

US equities extended recent gains to close July higher. Trade deal optimism led the benchmark S&P 500 and tech-heavy Nasdaq Composite indices to hit a series of fresh record highs, with sentiment also boosted by a slew of upbeat second-quarter earnings releases by big banks and mega-cap tech giants. This helped investors overcome concerns about the US's spiralling budget deficit and fears about the US Federal Reserve's (Fed's) independence as President Trump ramped up his campaign against Fed Chair Jay Powell.

While uncertainty around trade policy continues to cloud the longer-term outlook, recessionary risks continued to ease in July. The US economy grew by an annualised 3.0% during the second quarter, with imports plunging due to the imposition of trade levies. Elsewhere, retail sales rebounded from May's 0.9% decline to post an increase of 0.6% in June as consumers shrugged off tariff concerns and looming economic uncertainty. Meanwhile, non-farm payrolls in June rose by a consensus-beating 147,000, modestly higher than May's upwardly revised figure of 144,000.

Headline inflation in the US rose to 2.7% in the 12 months to June, up from 2.4% in May, while core inflation, which excludes volatile food and energy prices, ticked up to 2.9% in June from May's figure of 2.8%. Despite intense pressure from President Trump, the Fed maintained its wait-and-see approach, holding the federal funds rate steady at 4.25%–4.5% for the fifth consecutive meeting, as expected, although markets are currently pricing in two 25-basis-point rate cuts by the end of the year.

Europe

European equities closed July little changed. Some EU members reacted negatively to the announcement of a US-EU trade deal with 15% tariffs on EU imports into the US, with Germany and France among the EU countries concluding that the terms disproportionately favour the US. The negative impact of euro strength is also starting to surface in second-quarter corporate earnings releases, with analysts slashing full-year forecasts. At a sector level, information technology stocks fared worst, dragged lower by Dutch semiconductor manufacturer ASML as its shares plunged after US tariff uncertainty clouded the outlook for 2026. Communication services and real estate stocks also posted negative returns, while energy and financials stocks were among the positive performers.

While trade-related uncertainty prevailed for much of July, economic activity increased over the month, albeit at a sluggish pace, with the flash estimate of the HCOB euro-zone composite purchasing managers' index creeping up to an 11-month high of 51. However, inflation in the euro zone ticked back up to the European Central Bank's (ECB's) 2% target in June after falling to 1.9% in May.

On the monetary policy front, after eight consecutive 25-basis-point rate cuts since the ECB kicked off its easing cycle in June 2024, the central bank held rates steady at 2.0% at its July meeting. ECB President Christine Lagarde commented that the euro zone was in a “good place” in relation to inflation, but emphasised the downside risks of slowing growth, a stronger euro and increased competition from China.

Asia

Asia ex Japan equities delivered strong returns in July, significantly outperforming the global index. Thailand emerging as the strongest market amid ongoing political uncertainty that fuelled expectations of a central bank rate cut at the August meeting, boosting investor risk appetite. Taiwan followed, driven by AI-fuelled chip demand that led to a record surge in profits, while South Korea benefited from attractive valuations and corporate reform. Chinese equities also rallied, supported by stronger-than-expected Q2 GDP data and renewed hopes of stimulus measures from Beijing. ASEAN markets rallied as well, with Singapore equities buoyed by solid GDP growth. On the other hand, Indian equities lagged, pressured by foreign outflows impacting both equities and the rupee.

Bond

Global bonds sold off in July, with yields rising modestly over the month as a more risk-on tone returned to financial markets. 10-year US Treasury yield rose by 15bps, while the yields on the 10-year German Bund and UK Gilt increased 9bps and 8bps, respectively. Both the Federal Reserve and the European Central Bank (ECB) kept the interest rate unchanged. In general, corporate bonds delivered positive returns, outperforming government debt, with high-yield bonds rising the most.

Outlook

July saw modest gains for both European and Global equities. Notably, market leadership in the US narrowed again, with performance quite concentrated in a handful of large AI and big banks.

Macro conditions remain mixed. Global growth is subdued, and US import tariffs are an additional headwind. However, we expect the earnings of our companies to hold up better than many fear, with moderate growth in 2025 and a stronger rebound in 2026 as the macro backdrop improves, companies adapt to tariff structures, and currency effects ease. Select emerging markets are also benefiting from resilient domestic demand, solid fundamentals, and currency tailwinds, offering additional opportunities.

The Q2 earnings season brought sharp, quite polarising stock moves that did not necessarily reflect the results presented. Companies delivering clear beats and guidance raises were well rewarded, however even small misses on revenue or guidance triggered double-digit declines. In turn, there were several significant bounces for stocks that had been previously oversold, with this pattern playing out on both sides of the Atlantic.

Looking ahead, we remain constructive on the mid-term opportunity. We seek to own highly profitable, structurally advantaged businesses, and note that many of our holdings in Europe and even globally are now trading at valuations well below their historical averages. The Quality features of our companies should provide them with relative strength versus the latest round of US tariffs. We see potential upside from an eventual recovery in medtech and semiconductor investment cycles, fiscal stimulus in Europe, and the continued diffusion of AI into enterprise and industrial applications.

In this environment, discipline at the single-stock level remains paramount. We continue to broaden our research funnel, challenge existing positions, and focus on companies that can deliver steady growth and pricing power regardless of the macro and geopolitical backdrop.

Source: Allianz Global Investors, as of 31 July 2025 unless otherwise stated.

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Issuer:

Hong Kong – Allianz Global Investors Asia Pacific Ltd.