Capital Markets 2Q25 Update

Positioning in the US: where caution meets opportunity

The US market's strong 2025 start has been shaken by trade tensions and policy uncertainty, triggering a sharp pullback. Despite the uncertain outlook, this may offer long-term opportunities for investors.

Global Markets: growth potential amid trade shifts

Europe, EMs, and Asia show solid growth in 2025, but rising US tariffs add pressure. Export-driven economies are vulnerable, while strong domestic demand in India and Indonesia supports resilience. In Europe, defense and infrastructure may benefit from fiscal support.

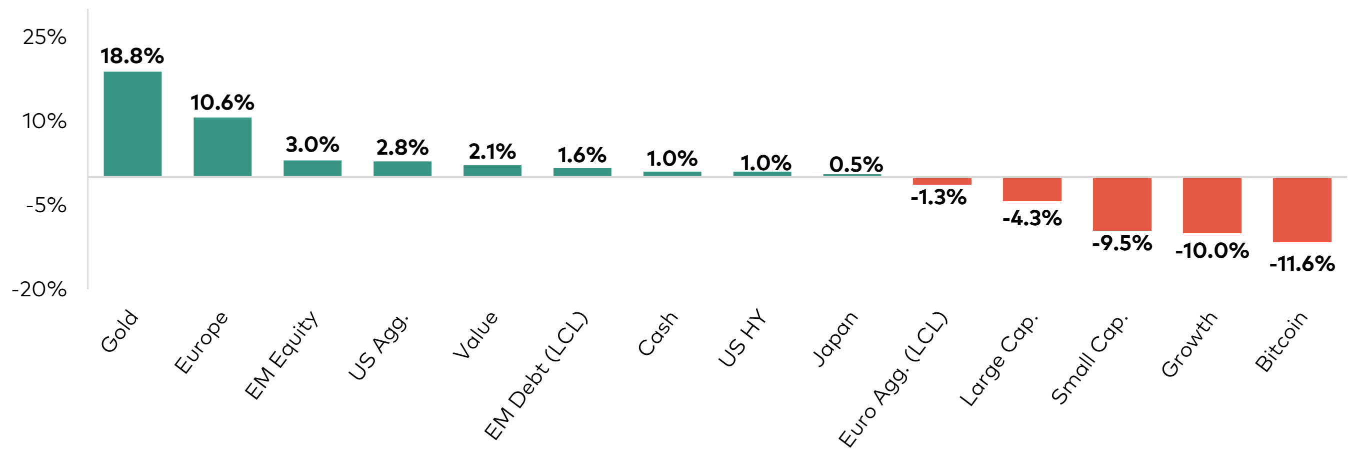
Not Just a Shine — gold's strategic value in 2025

Amid rising risks from geopolitics to policy shifts, gold is back in focus. Prices have hit record highs above $3,200/oz, driven by strong investor and central bank demand. While short-term pressure is possible if sentiment improves, gold remains a key hedge.

Summary

- Gold recorded the best performance over the 1Q25 among select asset classes, delivering 18.8% return. Meanwhile, surprisingly to most, Europe showed better returns than the US.
- Growing US market uncertainty significantly worsens the investor sentiment. Against the conventional thinking, it may be positive signal for the long-term investors.
- Global growth remains attractive in select regions, but rising US tariffs are reshaping trade dynamics. Countries with strong internal demand are better positioned than export-reliant peers.
- Gold continues to prove its role as a strategic safe haven, with heightened demand driven by geopolitical uncertainty, inflation concerns, and shifting rate expectations.

Select asset class returns, 1Q25



Source: Bloomberg
Large cap: S&P 500, Small cap: Russell 2000, Growth: Russell 1000 Growth, Value: Russell 1000 Value, EM Equity: MSCI EM Equity (USD), Europe: MSCI Europe Equity (USD), Japan: MSCI Japan Equity (USD), US Agg: Bloomberg US Aggregate, High Yield: Bloomberg US HY Index, Cash: Bloomberg 1-3m Treasury, EM Debt (LCL): Bloomberg EM Local Currency Government, Euro Agg. (LCL): Bloomberg Euro Aggregate Government Treasury, Gold: NYMEX Gold near term

US Equities

Discipline over distraction: look beyond volatility

The US market started 2025 on solid footing, but recent developments have reintroduced volatility. Rising trade tensions, especially with the announcement of new tariffs by the US government, and uncertainty around corporate earnings momentum have caused a notable pullback, particularly among large-cap growth stocks. Investor sentiment has soured considerably, with fewer than one in four retail investors expecting stocks to rise over the next six months, a rare level of pessimism that historically signals future upside. At the same time, the global landscape is becoming more unpredictable. Trade relationships are shifting, geopolitics are heating up, and policy changes are occurring more frequently. This more fragmented multi-polar world makes markets more vulnerable to shocks and harder to forecast.

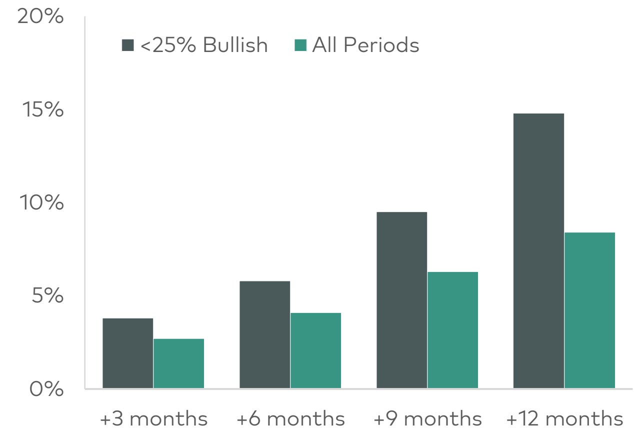
Investment implications

Against this backdrop, investors should brace for short-term swings. Gradual, step-by-step approach is advantageous in getting back into the US stock market. Even with expectations of slower economic growth, per UBS, the S&P 500 could still rise about 12% by the end of the year. Therefore, ongoing volatility provides attractive entry-points for adding on to the broad market exposure. Investors shall understand the broad market investments in current environment are long-term looking, and may face significant downward pressure in the near term.

Riskier investors may prefer to focus on more selective approach. For example, financial sector could benefit from potential deregulation and tax-cut policies. Small- and mid-cap companies may also present attractive entry points, given their lower global exposure and relative valuation appeal. While recession risks have edged higher, the Fed has room to cut rates, and both household and corporate balance sheets remain strong.

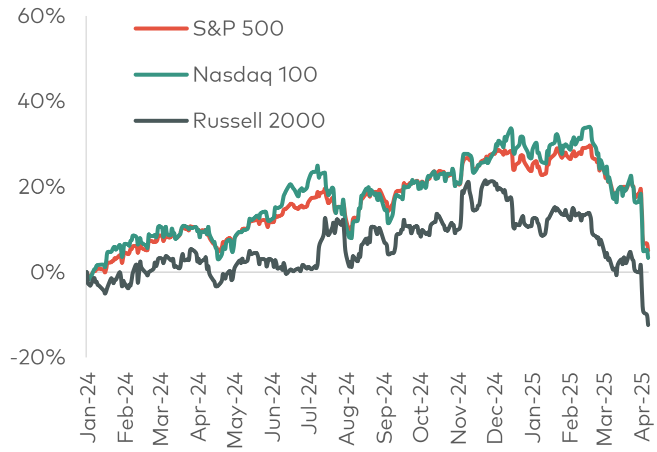
Bottom line: in the current environment, flexibility is key. Investors should stay diversified, avoid overexposure to any one sector, and try to focus on long-term objectives, rather than short-term policy-driven swings.

Average S&P 500 returns after fewer than 25% of investors are bullish vs. typical market returns



Source: Bloomberg, UBS

Total return of select ETFs, Jan-24 to date



Source: Bloomberg

ETF	Description
SPDR S&P 500 ETF (SPY)	Designed to track the performance of the S&P 500 Index, SPY provides broad exposure to 500 of the largest US companies, making it a strong core holding for long-term investors.
Invesco QQQ Trust, Series 1 (QQQ)	QQQ provides exposure to 100 of the largest companies listed on the Nasdaq, spanning across multiple sectors. It offers a balanced mix of innovative, large-cap leaders across various industries.
iShares Russell 2000 ETF (IWM)	Offers exposure to US small-cap stocks, which tend to be more domestically focused and less affected by global trade tensions.

Ex-US Equities

Europe, EM & Asia: opportunities in a world of tariffs

Heading into 2Q25, Europe, EMs, and Asia continue to offer a relative growth premium. However, the newly announced US tariff policy, starting with a 10% base rate, adds a major global headwind.

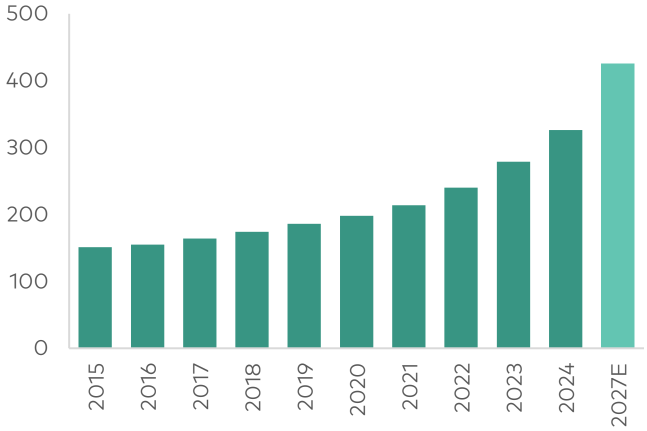
In Europe, Germany's fiscal push, particularly in defense, and broader EU investment support the growth outlook. Yet, much of the optimism may be priced in, and the region now faces direct tariff risks. Despite this, recent sell-off and potential of reaching a deal with the White House creates opportunities.

Emerging markets still offer valuation upside, especially in Indonesia and India. While India was hit hard by US tariffs, its vast internal market and domestic demand make local-facing companies a key opportunity. At the same time, several EM countries like Vietnam and Cambodia are among the worst hit by tariffs (but may reach certain deals with the White House). Asia remains the global growth engine, with ASEAN and frontier markets benefiting from supply chain shifts, but export-heavy markets like South Korea face pressure from US duties.

Investment implications

Investors should maintain exposure to EM, but may prefer to focus on countries with strong domestic demand and limited reliance on US trade. In India, that means prioritizing domestic-oriented companies, which are more insulated from tariff fallout. In Europe, investors should be selective, emphasizing sectors tied to fiscal expansion, especially defense and infrastructure. Defensive strategies also remain relevant in China, where state-owned enterprises may better weather trade disruptions.

EU defense expenditure, EUR bn, 2015-27F



Source: Bloomberg

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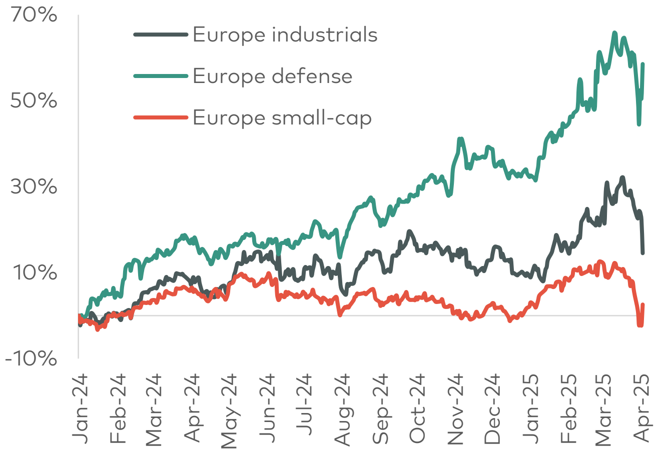


Source: Bloomberg

ETF	Description
iShares MSCI Europe Small-Cap ETF (IEUX)	Selectively positioned to benefit from Europe's fiscal expansion outside of the UK, especially in sectors like financials and industrials. Greater exposure to local economies and less vulnerability to US tariffs.
iShares MSCI Europe Industrials Sector UCITS ETF EUR (ESIN)	Tracks the performance of an index composed of European equities in the industrials sector, providing exposure to large- and mid-cap industrial companies across developed European markets.
HANetf Future of Defence UCITS ETF (NATO)	Direct exposure to European defense sector beneficiaries of rising EU and German military budgets. Includes names like Rheinmetall, Leonardo, BAE Systems, and Saab. Positioned to benefit from long-term fiscal shifts

Gold

Seeking safety and stability amid uncertainty

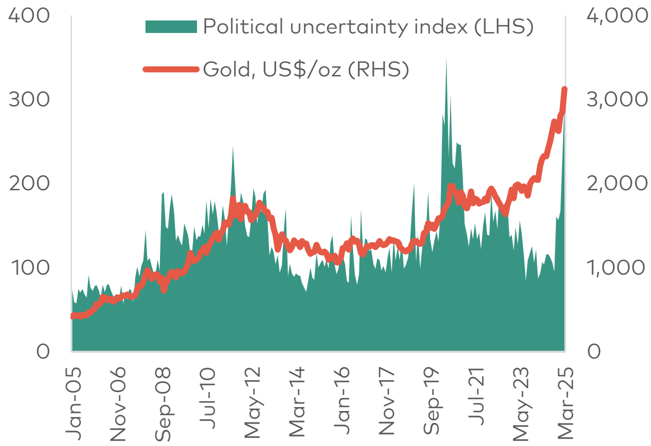
In today's uncertain environment, investors are increasingly turning to gold as a way to manage risk. With rising trade tensions, unpredictable US policy, and growing geopolitical instability, traditional strategies like the 60/40 stock and bond mix may not provide enough downside protection. Gold, by contrast, has a long history of holding value during periods of market stress — and that role has reemerged in 2025.

Gold recently climbed above $3,200 per ounce, a new all-time high, and has been described as the "standout performer" of the year as investors seek stability amid weaker equity sentiment. Demand has been strong from both retail investors and central banks, with further upside still seen as possible. Gold's appeal is also increasing in what is being described as a more "multi-polar" world, where inflation is harder to control and political risks are more widespread. Recent dollar weakness also aids the renewed strength of the precious metal.

Why the shift matters for investors?

In this setting, gold continues to play its role as a safe haven. Investors may consider a 3% to 5% allocation to gold, through physical holdings, ETFs, or mining stocks — to help reduce portfolio risk. While gold may face near-term pressure if investor sentiment improves, it continues to serve as a valuable long-term hedge. It is also seen as a useful macro hedge in a fragmented global economy where regional policy shocks are becoming more common. Additionally, in the environment of high debt, gold is a better diversifier than Treasuries, per BlackRock.

Gold price (US$/oz) and political uncertainty index



Source: Bloomberg

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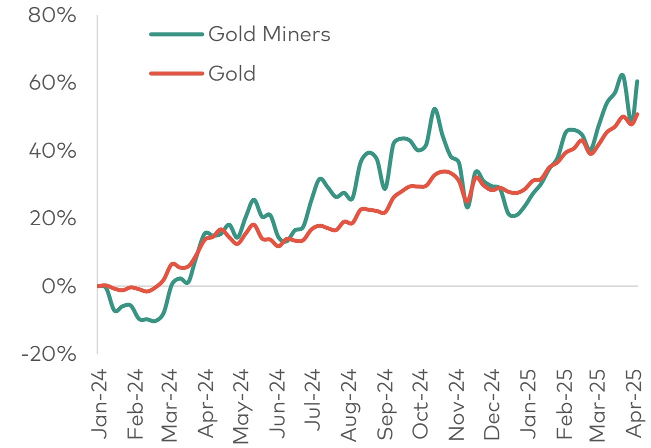

Source: Bloomberg

ETF	Description
SPDR Gold Shares (GLD)	One of the largest and most liquid gold ETFs. Offers direct exposure to physical gold. Tracks the price of gold and is ideal for investors looking for core safe haven protection.
iShares MSCI Global Gold Miners ETF (RING)	Offers indirect exposure to gold by investing in a broad basket of gold mining stocks. Ideal for investors seeking leveraged potential returns tied to gold prices, along with diversification across international mining firms.

Forecasts for 2025 and beyond

Based on market expectations, by the end-2025, a 2-year US Treasury yield is expected to touch 3.82% (up from current 3.75%), while a 2-year German bund yield is expected to rise to 2.05% (increase from current 1.84%).

According to BlackRock Investment Institute, the outlook for all regional equity markets, including Europe, Emerging Markets, the UK, the US, Japan, and China, is neutral over the next 6 to 12 months.

Meanwhile, in terms of fixed income securities, BlackRock overweighs short-term US treasuries and short-term IG (investment grade) credit, while underweighting long-term US treasuries, Euro area & Japan government bonds, and long-term IG credit.

FIXED INCOME

Yield forecasts (%)

	Last	2Q25F	3Q25F	4Q25F	4Q26F
US treasuries					
30-year	4.61	4.57	4.54	4.52	4.45
10-year	4.17	4.33	4.31	4.29	4.14
5-year	3.85	4.10	4.07	4.03	3.90
2-year	3.75	4.01	3.91	3.82	3.64
SOFR	4.26	4.21	4.07	3.90	3.49
German bunds					
10-year	2.63	2.67	2.68	2.71	2.70
2-year	1.84	2.10	2.05	2.05	1.96
EURIBOR	2.36	2.07	2.00	1.96	2.05

Source: Bloomberg

6-12 month outlook

Fixed income	Outlook
Short US treasuries	Positive
Long US treasuries	Negative
Global inflation-linked bonds	Neutral
Euro area govt. bonds	Negative
UK Glits	Neutral
Japan govt. bonds	Negative
China govt. bonds	Neutral
Short-term IG credit	Positive
Long-term IG credit	Negative
Global HY	Neutral
Asia credit	Neutral

Source: BlackRock Investment Institute

Equities	ETF	Outlook
US	SPY	Neutral
Japan	EWJ	Neutral
China	MCHI	Neutral
UK	EWU	Neutral
Emerging Markets	EEM	Neutral
Europe	IEUR	Neutral

Positive Neutral Negative

Source: BlackRock Investment Institute

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Galt & Taggart
Address: 3 A. Pushkin Street, Tbilisi 0105, Georgia
Tel: +995 32 2401 111

Research: research@gt.ge
Tel: +995 32 2401 111 (4298)

Brokerage: sales@gt.ge
Tel: +995 32 2444 132

Investment Banking: ib@gt.ge
Tel: +995 32 2401 111 (7457)

Eva Bochorishvili – Head of Research
│evabochorishvili@gt.ge│ +995 32 2401 111 ext. 8036

Sergi Kurashvili – Capital Markets Research Associate
│s.kurashvili@gt.ge│ +995 32 2401 111 ext. 3654

Elene Tabatadze – Capital Markets Junior Analyst
│eltabatadze@gt.ge│ +995 32 2401 111 ext. 9606