S.P. HINDUJA

BANQUE PRIVÉE

House View

July 2025

Thoughts of the CEO

"Adapting to Global Shifts: Strategy, Security, and Resilience"

As we step into the second half of 2025, the global landscape remains shaped by complex dynamics, marked by persistent geopolitical tensions, evolving macroeconomic trends, and shifting investor sentiment. Our July House View is anchored in a belief that with thoughtful positioning and disciplined risk management, opportunities remain abundant despite the noise.

Geopolitical events have once again proven to be powerful market catalysts. Historically, wars and conflicts trigger initial market dislocation, followed by recovery as uncertainty fades and new realities are priced in. Today's environment mirrors this pattern. Despite ongoing war in Eastern Europe, tensions in the South China Sea, and instability in the Middle East, markets have largely absorbed the shock. Energy prices remain elevated but more stable; food inflation persists; and sectoral winners, particularly in energy and cybersecurity, are emerging with strength.

Amid this volatility, equity markets have displayed resilience, supported by improving fundamentals in select geographies. The US, while still a global growth anchor, faces political unpredictability and constrained policy flexibility. In contrast, regions such as Europe and Asia offer diversified growth engines, more accommodative policy environments, and increasingly compelling bottom-up opportunities.

In Europe, we see signs of transformation. Strategic shifts in energy sourcing, investment in industrial automation, and a manufacturing rebound, especially in Germany and the Nordics, are reshaping the continent's economic trajectory. Meanwhile, European banks are delivering stronger earnings, supported by higher net interest margins and a decade of balance sheet cleanup. With continued investment in infrastructure and energy, the region is well-positioned for long-term capital deployment.

Asia presents a similarly nuanced but attractive picture. India continues to demonstrate structural momentum through domestic demand, infrastructure expansion, and demographic strength. Japan, long overlooked, is experiencing a quiet revival powered by governance reforms, capital discipline, and corporate efficiency. Selective exposure to firms tied to AI, automation, and industrial technology offers meaningful upside.

Our investment strategy emphasizes selectivity and structural alignment. US equities remain core to diversified portfolios, but we advise focusing on companies with global leadership, pricing power, and dividend discipline. In parallel, increasing exposure to non-US assets, particularly in sectors aligned with energy independence and technological resilience, offers a potent combination of growth and risk mitigation.

Security is emerging as a central investment theme. Governments are prioritizing national resilience through targeted spending in energy infrastructure, security systems, and digital sovereignty. This trend will benefit industries at the forefront of critical supply chains, smart grid upgrades, and advanced engineering, especially in Europe and Japan.

In fixed income, the backdrop remains complicated by fiscal pressures and yet, sticky inflation. We recommend reducing portfolio duration and focusing on high-quality, short-maturity bonds, while maintaining selective exposure to investment-grade credit for income stability.

In closing, history shows that markets adapt, even in times of war and upheaval. Our focus remains on helping you navigate complexity with clarity, positioning for both resilience and opportunity. We thank you for your continued trust and partnership as we journey through the remainder of 2025 together.

Yours sincerely,

Fabrice d'Erm

Investment Positioning

Even amid the continuing trade tensions and unrest in the Middle East, both global and US equity markets have reached record highs. Stabilization of earnings growth expectations in the US and ample liquidity seem to be driving the markets rather than valuations. The return of the Mag-7 appeal is a short-term headwind. Additionally, signs of de-escalation in trade tensions are contributing to a more constructive risk environment. While these factors warrant a reassessment of our positioning, and likely a reduction in our current underweight to US equities, we continue to advocate for a balanced geographical allocation. Europe remains attractive due to structural reforms and sector-specific momentum, while select Asian markets, particularly Japan and India, offer compelling long-term opportunities supported by reform agendas and robust domestic demand.

Recent Investment Committee Decisions

In early June, we reduced average duration in fixed income to mitigate interest rate risk. While the immediate impact on portfolios has been slightly negative and more than negligible, we view this as a short-term effect. We remain confident that this positioning is appropriate for the second half of 2025, given persistent fiscal pressures and the potential for renewed yield volatility.

Markets and Conflicts

Geopolitical conflict is one of the few exogenous shocks that can send simultaneous tremors across asset classes, geographies, and investor psychology. In times of war, markets grapple not only with the direct economic consequences but also with heightened uncertainty, shifts in capital flows, inflationary pressures, and volatility in commodity prices. Understanding how markets have responded historically to periods of war can provide a valuable framework for interpreting today's environment.

Historical patterns of Market Behavior During Wartime

From World War I to the present day, financial markets have exhibited a remarkable, if counterintuitive, capacity for resilience during periods of armed conflict. While wars almost always produce initial selloffs, particularly in equity markets, they also tend to be followed by stabilization and eventual recovery as uncertainty diminishes or as market participants adjust to the new geopolitical realities.

World War II (1939–1945), for instance, saw significant initial declines in US equities following the invasion of Poland and later Pearl Harbor. However, from the nadir in 1942, the S&P 500 began a robust recovery, driven in part by wartime production and improving investor sentiment as Allied momentum built. Fixed income markets saw rising issuance to fund military efforts, yet bond yields remained relatively stable due to the Federal Reserve's policy of yield curve control.

During the Vietnam War, the market response was more muted, primarily because the war unfolded gradually and did not significantly disrupt global trade. That said, rising fiscal deficits and inflation eventually pressured fixed income returns and led to increased volatility in the 1970s.

The Gulf War of 1990–91 provides an example of a rapid but contained conflict. Markets initially declined sharply when Iraq invaded Kuwait, with oil prices spiking. However, the swift resolution of the conflict led to a quick rebound in equities and normalization in commodity markets.

Post-9/11 and the Iraq War (2003) again showed that geopolitical shocks can lead to market dislocation, but the equity market began rising even before the war officially began. This reflects the forward-looking nature of financial markets and their tendency to "price in" risk before events unfold.

Common Investment Themes in Wartime Periods

Across these historical episodes, several themes emerge:

- Initial shock, followed by recovery: Markets typically fall on the outbreak of hostilities, driven by fear and uncertainty, but often recover once outcomes become more predictable.

- Inflation and commodity price spikes: War disrupts supply chains and global trade, leading to inflationary pressures, particularly in energy and agriculture.
- Outperformance of certain sectors: Energy and industrials tend to outperform during and after conflict periods.
- Policy responses matter: Central banks and governments often act decisively to cushion economic impact, affecting rates, liquidity, and fiscal stimulus.

The Current Situation: 2025 and Beyond

In 2025, the geopolitical backdrop is once again exerting a powerful influence on markets. The ongoing war in Eastern Europe, renewed tensions in the South China Sea, and instability in the Middle East are contributing to a risk-off tone in global markets. The economic impacts, however, have been more nuanced.

Energy markets remain elevated but more stable than during earlier phases of the Ukraine conflict. Strategic reserves have been rebuilt, and alternative supply chains have been developed. However, food inflation persists due to disrupted agricultural exports from conflict regions.

Equity markets, while volatile, have avoided a deep correction. This reflects a growing belief that global economic fundamentals, particularly in the US and parts of Asia, remain relatively resilient. Additionally, the security sectors have drawn significant investor interest, buoyed by rising government spending and earnings momentum.

Fixed income markets are navigating competing forces: elevated government spending to support security and humanitarian efforts is increasing issuance, but slowing inflation and central bank dovishness are exerting downward pressure on yields.

Implications for Portfolio Construction

For investors, the implications are multifaceted. In our view, the key is not to overreact to headlines but to understand the structural implications of conflict. Short-term volatility is inevitable, but markets have shown time and again that they can absorb geopolitical shocks if underlying fundamentals are sound.

Strategic allocations to sectors with favorable wartime dynamics, such as cybersecurity, and commodities, may enhance portfolio resilience. Simultaneously, maintaining exposure to high-quality growth and income-generating assets can offer balance.

Importantly, wars often accelerate structural shifts in global trade, supply chains, and technology adoption. Investors who position ahead of these changes can benefit significantly.

Fig. 1: Geopolitical Events and Market Reactions (S&P 500 in %)

Event	Date	One-day	Total Drawdown
Pearl Harbor Attack	Dec 7, 1941	-3.8	-19.8
Hiroshima bombing	Aug 6, 1945	0.27	-2.2
N. Korea Invades S. Korea	June 6, 1950	-5.4	-12.9
Cuban Missile Crises	Oct 16, 1962	-0.3	-6.6
Six-Day War	June 5, 1967	-1.5	-1.5
Yom Kippur War	Oct 6, 1973	0.3	-0.6
Iraq's invasion of Kuwait	Aug 2, 1990	-1.1	-16.9
9/11 WTC attack	Sept 11, 2001	-4.9	-11.6
Bombing of Syria	April 7, 2017	-0.1	-1.2

SOURCE: Bloomberg and LPL Research

The relationship between geopolitical crises and market outcomes is not as simple as it may seem. In fact, markets react surprisingly calmly.

Conclusion

History suggests that while war introduces uncertainty and short-term volatility, it does not necessarily lead to long-term market deterioration. Instead, markets adapt, often faster than expected. The current environment, while tense, does not suggest systemic financial instability. Careful portfolio construction, an understanding of historical precedent, and a disciplined approach to risk management remain the best tools for investors navigating geopolitics in 2025.

Our outlook for the second half of 2025

As global markets transition into a new cycle defined by moderating inflation, shifting interest rate expectations, and persistently high geopolitical uncertainty, investors are increasingly scanning for growth opportunities outside of the US. The country's unpredictable politics has led to a softening of short-term economic growth. The US is facing sluggish growth and persistent inflation, and authorities have little room to maneuver regarding monetary and fiscal policy. Other regions in the world offer more flexible policies and diverse growth drivers. We recommend continuing to diversify into non-USD assets in a discerned way.

Europe and several Asian economies offer a compelling, though nuanced, opportunity set, particularly for investors willing to look beyond headline macro risks and focus on bottom-up fundamentals, structural reforms, and sector-specific dynamics. On top of that, both regions sit on the constructive side and are eager to maintain open cooperation with strong trade links and implement growth-oriented policies. More bilateral trade agreements are to be executed as these regions seek protection from the unpredictable US policies.

While both regions have faced their own sets of challenges over the past few years, they are now home to pockets of growth that appear undervalued or underappreciated by global capital flows. A selective and research-driven approach will be essential in capturing these opportunities.

Europe: Green Shoots Amid Structural Rebalancing

Despite persistent concerns around Europe's cyclical weakness and geopolitical exposure, the continent is quietly undergoing a transformation that could support a more sustained recovery in equity and credit markets.

Manufacturing Rebound and Energy Adjustment

Following the energy crisis of 2022–2023, Europe has made significant strides in diversifying its energy mix, investing in renewables, and reducing reliance on imported fossil fuels. This strategic shift has helped stabilize input costs and reignited industrial production, especially in Germany and the Nordics.

In fact, the European Industrial Control and Factory Automation market size is estimated at USD 69 billion in 2025 and is projected to reach USD 102 billion by 2030. This translates into a compound annual growth rate (CAGR) of 8.2% valued at USD 197 billion in 2024 and it is anticipated to reach USD 380 billion by 2033. Capital expenditure in advanced manufacturing and automation is rising, supported by both public subsidies and corporate reinvestment.

Export-oriented sectors such as industrial equipment, aerospace, and clean-tech components are showing signs of life, benefiting from stronger global demand and an increasingly favorable euro exchange rate. Logistic companies capable of offering flexible solutions to the changing supply chain environment should also benefit. Broadly, countries with competitive manufacturing bases, like Germany, the Netherlands, and Austria, are likely to outperform within this dynamic.

Having demonstrated stricter fiscal discipline than the US, European countries are poised to accelerate public spending in the next years. Europe is prioritizing investments in infrastructure and energy as key pillars of its security and economic development through 2030. Expansion and modernization of electricity grids would require EUR 584 billion of investment (EU Commission) and according to Reddit, the region projects duplicating its annual investment to support the energy transition from EUR 35 billion to EUR 70 billion.

Financial Sector Tailwinds

The European banking sector, long considered structurally impaired, has undergone significant deleveraging and recapitalization over the past decade. With higher net interest margins due to recent rate increases, improving asset quality, and leaner cost structures, several regional and national banks (especially in Spain, Italy, and the UK) are now delivering stronger earnings and more predictable dividend flows. While some margin compression is expected as monetary easing gradually resumes in 2026, the current earnings base remains robust. In Q1 and Q2 2025, major

European banks such as BNP Paribas, Santander, and UniCredit reported double-digit ROEs, maintaining profitability well above pre-2020 averages.

Structural tailwinds exist, including continued consolidation, technological transformation, and rising security and infrastructure spending across the region, which further support a constructive long-term view. While regulatory and geopolitical risks remain, the current valuation levels and earnings momentum offer a compelling risk-reward profile for selective exposure.

Asia: Targeting Resilient Domestic Demand and Strategic Themes

While much attention in Asia continues to center on China's uneven post-COVID recovery, several other economies in the region are delivering more stable and diversified growth profiles. Investors seeking structural upside and demographic tailwinds would do well to consider a more granular approach to Asian markets.

India: A Structural Growth Story

India remains one of the most promising long-term investment stories globally. The combination of robust domestic consumption, improving infrastructure, and a proactive policy environment is driving consistent GDP growth in the 6–7% range. Structural reforms, including the implementation of a unified tax system (GST), digitization of public services, and infrastructure upgrades, have improved productivity and increased investor confidence.

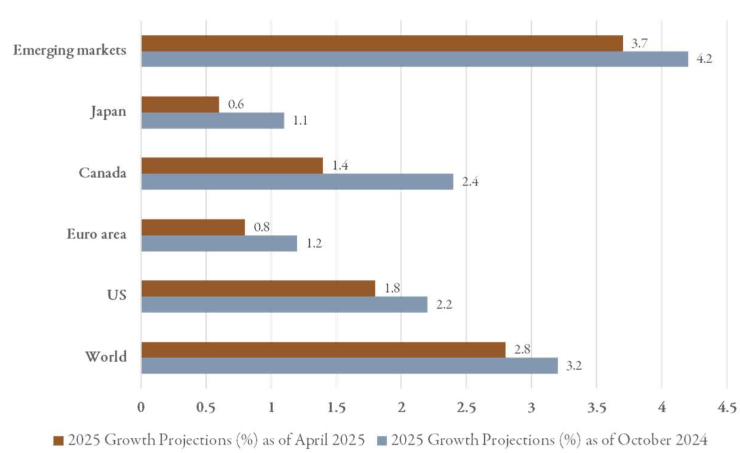
Sectors such as financial services, consumer durables, digital platforms, and renewable energy are experiencing rapid expansion. Moreover, India's demographic advantage is significant, with a median age of just 29 years, one of the lowest among major economies, is supporting a large, youthful workforce and sustained domestic demand over the long-term.

For a deeper dive into current macroeconomic trends, sectoral opportunities, and asset allocation insights in India, please refer to our bank's dedicated monthly India House View publication. (See our India House View, issue June 2025, released on June 27).

Japan: A Quiet Revival

After years of stagnation, Japan is seeing renewed investor interest amid corporate governance reforms, rising wages, and improving shareholder returns. The Tokyo Stock Exchange's pressure on underperforming companies to improve capital efficiency has triggered buybacks, dividend hikes, and a deep restructuring across the corporate universe. The latest example of this is Toyota Group which has unloaded USD 8 billion in cross-held shares involving 9 group companies, in the search of a more efficient use of capital. We believe this kind of actions, which have long been criticized by institutional investors, will significantly

Fig. 2: Change in 2025 Growth Projections (%)



SOURCE: IMF

The IMF lowered its 2025 global growth forecast from 3.2% to 2.8% due to trade tensions, especially from new US tariffs, tighter financial conditions (specifically credit availability and investor appetite have not loosened enough), and slower recoveries in major economies like China and Europe. Weaker global investment and lingering geopolitical uncertainties further weighed on outlooks.

impact other Japanese companies.

At the same time, the Bank of Japan's gradual policy normalization, if managed prudently, could mark the beginning of a more market-driven investment era. These significant developments are laying the groundwork for structural change in Japan's stock market.

While the yen remains volatile, a weaker currency supports export competitiveness, especially for industrials and high-tech manufacturers. We see potential in firms with strong global footprints, solid balance sheets, and exposure to AI, automation, and semiconductors.

Beyond the second half of 2025, we remain constructive around Japanese equities. In the current context of an increasingly polarized world, we positively value the market shift towards a more stable and more predictable return type of environment. This could even attract investors with a different profile, less opportunistic and more long-term driven, who value stable returns.

Investment Strategy: Selectivity and Structural Themes

We continue to advocate for expanding equity allocations beyond the US, given the growing trend of non-US investors scaling back their US exposure. Needless to say that US equities continue to play a key role in a well-diversified portfolio, but allocations should be concentrated in truly exceptional companies, particularly those with no clear global peers or substitutes.

Although Trump's tax bill has been passed, policy uncertainty in the US will persist. Some sectors, such as industrials, energy, and communications, could emerge as beneficiaries. Others, namely green energy stocks exposed to wind and solar projects, will face stronger headwinds.

We like dividend payers. This group of companies have historically provided a measure of stability during periods of high volatility. A company which grows its dividends bodes well for investors: disciplined management, profits visibility and confidence about future business prospects. Dividend growers can be found among utilities, financials and telecom companies.

Coming back to Europe, European policies remain supportive for equities in the region over the medium term. We believe corporate earnings in Europe are poised for a more sustained rebound following an extended period of stagnation. German equities stand out due to their bias toward cyclical growth sectors, attractive valuations, and strong earnings-growth estimates. Corporate earnings for the DAX Index are expected to grow by 8.2% in FY25 and 15.6% in FY26. For mid-cap companies (MDAX Index), earnings growth is projected at 35% and 22% for the same periods, respectively, according to Bloomberg.

Security is becoming a central priority in a rapidly changing global landscape. In response, governments worldwide are implementing measures to strengthen their nations' resilience across multiple dimensions. This evolving focus stands to benefit a broad spectrum of industries engaged in areas such as military readiness, energy independence, technological resilience, and the safeguarding of critical supply networks. Companies involved in energy production, smart grid upgrades, and cybersecurity, areas increasingly critical to national security and economic autonomy, should benefit.

As far as fixed income is concerned, upward pressure on long-end rates seem to persist driven by inflation and fiscal concerns. A prudent fixed income strategy is to reduce overall portfolio duration and focus on shorter-maturity bonds. This helps limit sensitivity to interest rate volatility while maintaining exposure to quality income streams. In order to weather potential headwinds to growth, some exposure to investment grade corporate bonds is recommended as fundamentals remain robust.

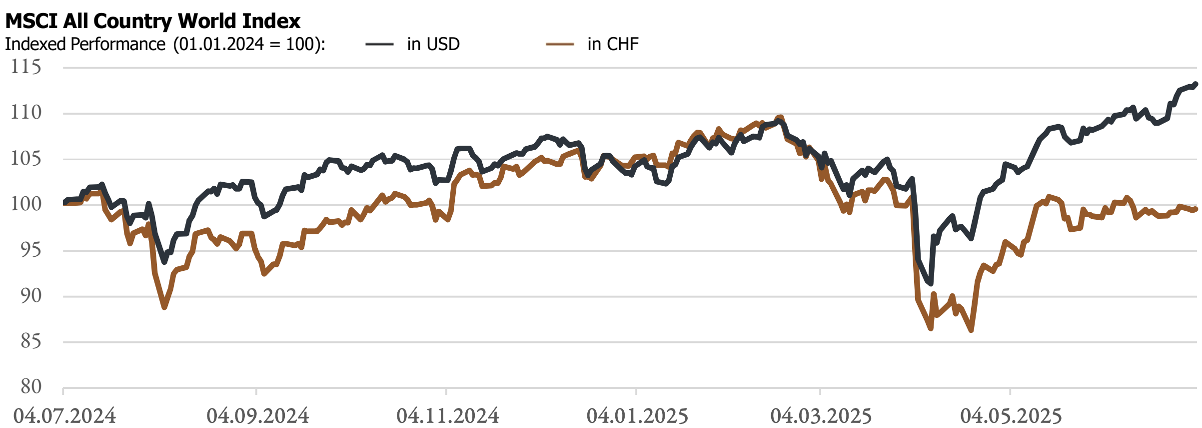
Additionally, maintaining flexibility through active management allows for timely adjustments as market conditions evolve.

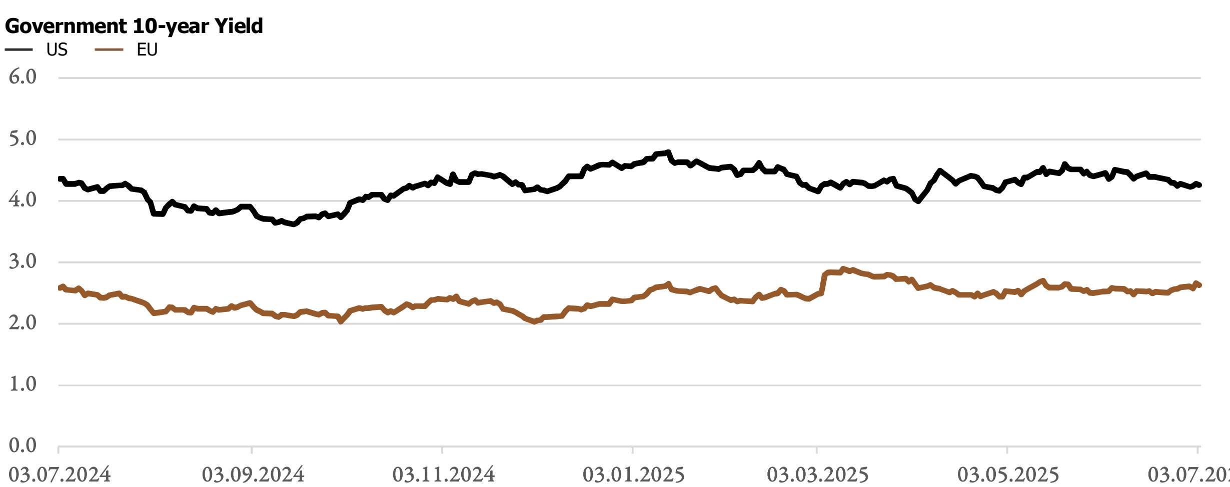
Macroeconomic estimates (per cent)

	GDP Growth		Inflation		Interest Rates	Fiscal Balance
	2024*E*	2025*E*	2024*E*	2025*E*	Current	Current
USA	2.8	1.5	2.95	2.9	4.50	-6.7
Eurozone	0.7	1.0	2.4	2.0	2.15	-3.1
UK	0.8	1.1	2.5	3.2	4.25	-5.1
Switzerland	1.3	1.1	1.1	0.3	0.00	0.6
Japan	0.1	0.8	2.7	2.8	0.50	-2.2
China	5.0	4.6	0.2	0.2	3.00	-4.8
Brazil	3.4	2.3	4.4	5.2	15.00	-7.9
India	7.8	6.3	4.8	4.6	5.50	-4.8
Russia	3.7	1.4	8.4	9.2	20.00	-2.5
World	3.0	2.6	4.2	3.8	-	-

SOURCE: Bloomberg

Financial Markets





SOURCE: Bloomberg

Global Asset Allocation Preferences

Asset Class	Opinion	Most Preferred	Least preferred	Commentary
Cash	=			We remain neutral in view of growing macro uncertainties surrounding risk assets and economic growth. Cash still offering 4.3% annualized yield in USD.
Fixed Income	+	Core fixed income Short duration	Convertibles, US high yield	We favor core fixed income as rising concerns about the impact of uncertain trade policies on economic growth are building up. We expect the Fed to cut rates before year end. We favour shorter durations (3 to 7 years) to mitigate the growing risks from persistent deficits, higher inflation expectations and the building-up of term premium in longer-end yields. In the credit space, we have a less positive view on investment grade credit due to tight spreads and geopolitical uncertainty. We still believe it will be challenging for US businesses to deal with higher tariffs. US HY spreads do not offer sufficient safety against negative surprises.
Equities	-	Neutral to overweight in EZ and slightly underweight in US. Long-term India, and Japan High quality. Value. Dividend growers. Defensive sectors.	Rest of EM and UK Small Caps, Cyclicals, Discretionary and Materials	We remain underweight in Equities despite: i) the reduced recession risks driven by the de-escalation of the tariff war and ii) an stabilization of US earnings growth estimates for 2025. We still see a significant amount of policy uncertainty, rich US equity valuations and limited support to US equities from diminished fiscal and monetary leeway. Consensus estimates of lower economic growth and rising inflation expectations from latest surveys still present a whammy backdrop for equities. Based on the above, we have become more moderate in our bias to continue diversifying away from US risk assets. Some markets in Europe have overshot relative to their fundamentals and macro momentum and recommend reducing the overweight positioning. We like Swiss equities as a stabilization element in equity portfolios with the protection from Swiss franc exposure. We continue favouring India, and Japanese equities. We maintain our underweight in China on little prospect of the needed fiscal boost.
Alternatives	+	Infrastructure, Gold, Hedge funds	Commercial REITs.	Despite the strong outperformance of gold we keep our overweight recommendation. The asset class should still benefit from uncertainty in the geopolitical and global trade fronts that coupled with upside pressure on US debt levels, will likely support buying activity from central banks. Recent gains also suggest booking some profit Infrastructure (transport and energy) remain attractively priced and could do relatively well under a range of scenarios. The potential for inflation-adjusted cash flows has been overlooked by investors and the asset class usually delivers in slower growth scenarios. We avoid REITs.

Opinion legend: (--) very unattractive; (-) unattractive; (=) neutral; (+) attractive; (++) very attractive.

Figure of the Month

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This number represents the forecast size of the world's drone market in 2030 in billion USD. In 2024, the global drone market was valued around USD 73 billion, and it is forecast to reach USD 163+ billion by 2030, reflecting a 14%+ CAGR. Military drones (also known as Unmanned Aerial Vehicles, UAVs, or Unmanned Combat Aerial Vehicles, UCAVs) account for a significant portion of market value due to their high unit costs. In fact, the military is currently the largest end-use area by revenue: even when excluding purely recreational and the most advanced weaponized drones, military applications made up about 60% of the total drone market value in 2024. Source: Grand View Research's Drone Market Report.

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We are a private bank with an entrepreneurial spirit, embracing collective action and building creative solutions that advance the world, economically and socially.

The future of banking is emerging at the intersection of profit and purpose.

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