Macro Outlook Summary

June 2025

Normally the start of an equity bull market is preceded by a significant turning point in the macro outlook. A positive change to the growth outlook because inflation has been falling and short term interest rates are on the cusp of being reduced is text book stuff. Lower rates ease the debt burden on consumers and corporates enabling higher consumption and employment. This feeds into rising asset prices, easier bank lending and a positive feedback loop for ongoing growth.

Since March'25 investors have been expecting two 25bps rate cuts to bring the Fed Funds rate down from 4.5% to 4% by year end and then very little in 2026 unless the labour market deteriorates significantly. That does not qualify as the beginning of a rate cutting cycle setting the scene for growth. It is more about late stage economic management and simply normalising rates if inflation comes back into line.

This expansion cycle began in 2Q20 following the Covid shock and contraction. The resulting inflation spike of 2022 was not anticipated and significantly misjudged by central bankers but their 'behind the curve' rate hikes did not derail the US economy or elsewhere. The US equity market is expensive by every measure and the outlook for growth and strong earnings becomes more doubtful by the day. Put options on the SPX have been bought heavily for protection by many investors which seems wise. The high degree of put skew in the SPX and other US indices shows this clearly.

Reducing outright long US exposure in favour of other better value markets or increasing allocation to equity long-short hedge funds maintains market exposure but should also reduce risk in the event of an equity market correction.