Investment Roundup

22 July 2025

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With valuations running high and volatility low, markets seem to be priced for perfection. However, this optimism may be masking certain risks, such as an unexpected inflation spike or delayed policy easing.

In such an environment, one might find value in strategies that protect on both sides. Call spreads can offer modest upside participation, especially with equity volatility still subdued. Private credit may also warrant attention, particularly for those seeking shorter durations and floating-rate protection.

The path forward will not be linear. It rarely is.

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In just a week, the U.S. will begin collecting tariffs under a renewed trade stance, with 1 August marking the start of duties on goods entering the country.

Yet, equity markets aren't blinking. Instead, benchmarks remain near record highs, and risk assets seem to have already priced out any worst-case outcomes. Confidence is high - but is it too high?

Equity valuations continue to climb, with the S&P 500's price-to-earnings ratio now sitting above one standard deviation from its long-term average. That alone signals a rising confidence in corporate earnings, but it could also may prove overly hopeful.

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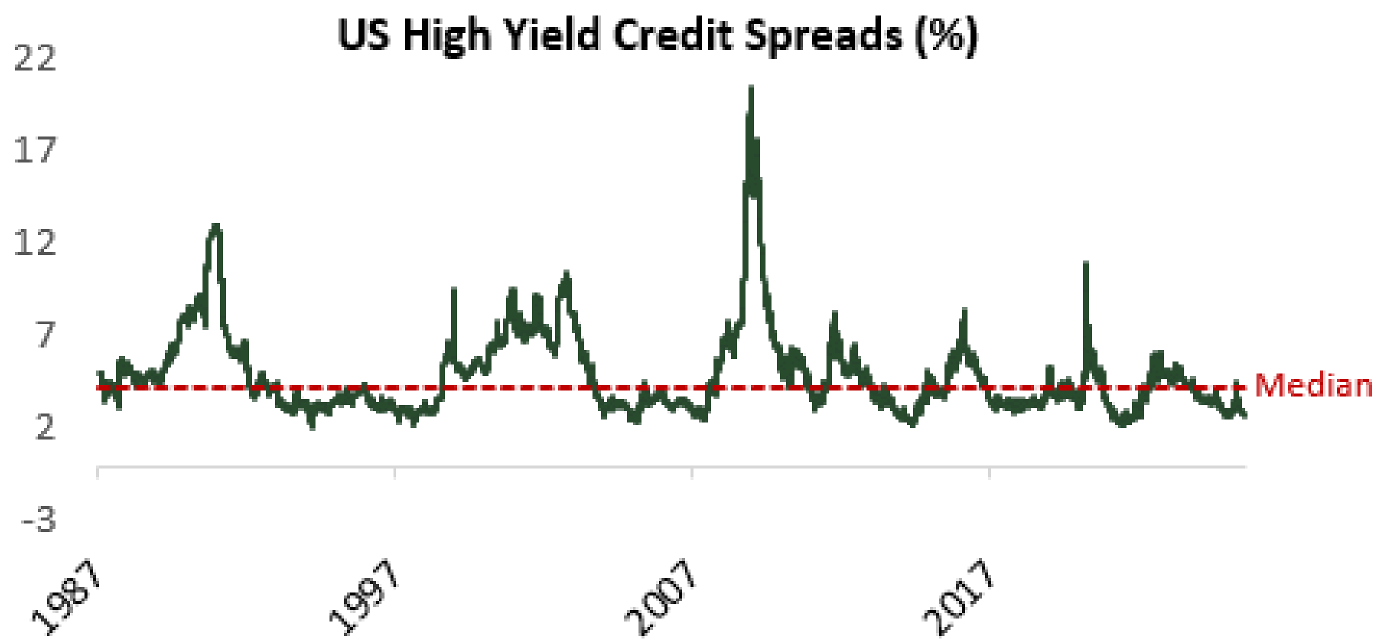
Optimism in risk assets pricing



Credit markets are echoing this optimism. High yield spreads have narrowed to just 2.69 percent - well below their 30-year median of 4.25 percent. Investors appear to be assigning minimal credit risk, despite lingering macro uncertainties. The mood, at least for now, leans toward risk-taking.

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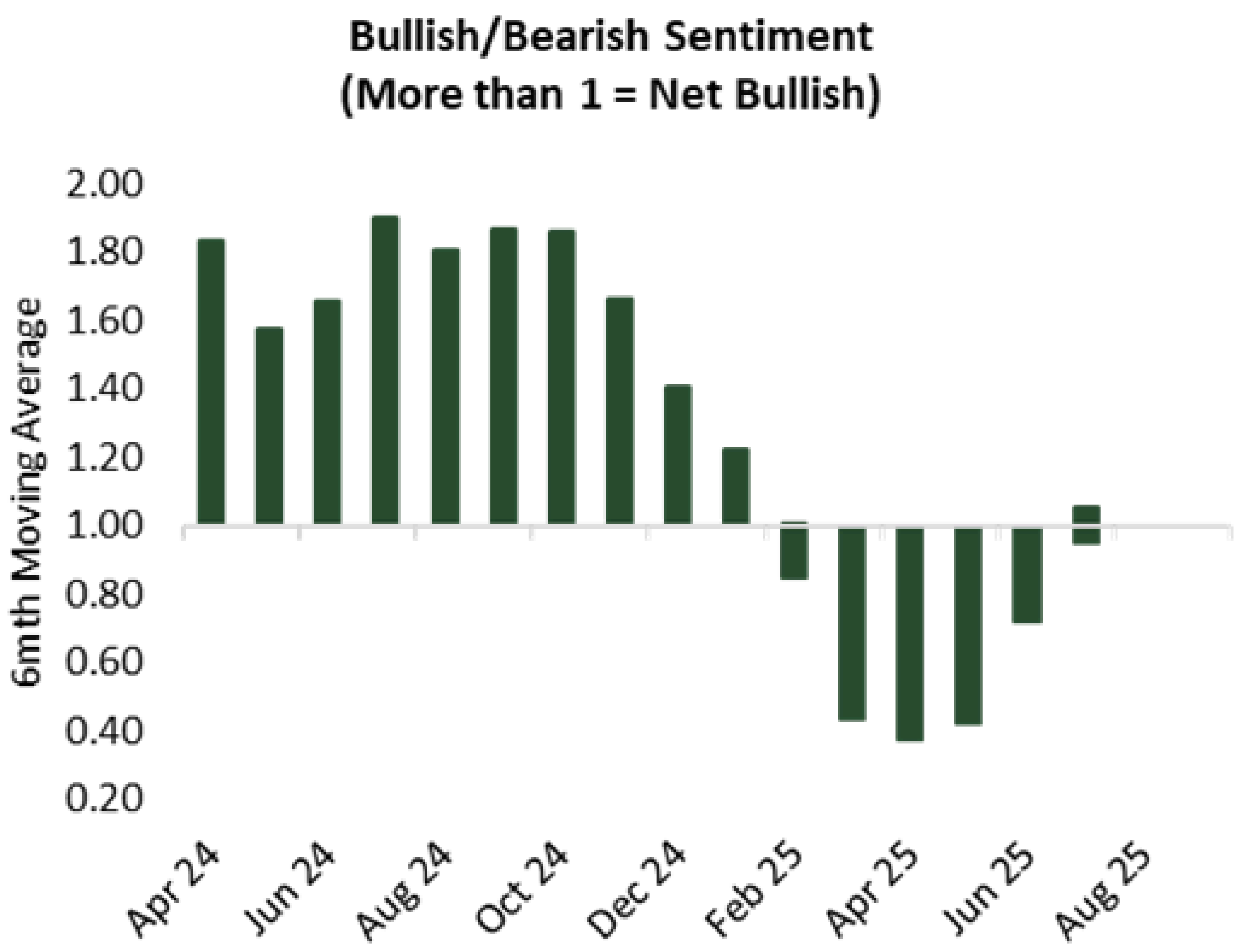
Investment sentiment



Source: Bloomberg L.P., as of 18 Jul 2025

The market's momentum is being shaped by the 'Magnificent Seven'. Over the past two weeks, investor flows have rotated more aggressively into these names, underscoring their dominance.

Artificial intelligence remains the central engine of this rally. Heavy capital expenditures are driving this phase of innovation. The question that looms is whether markets have already priced in much of this growth.

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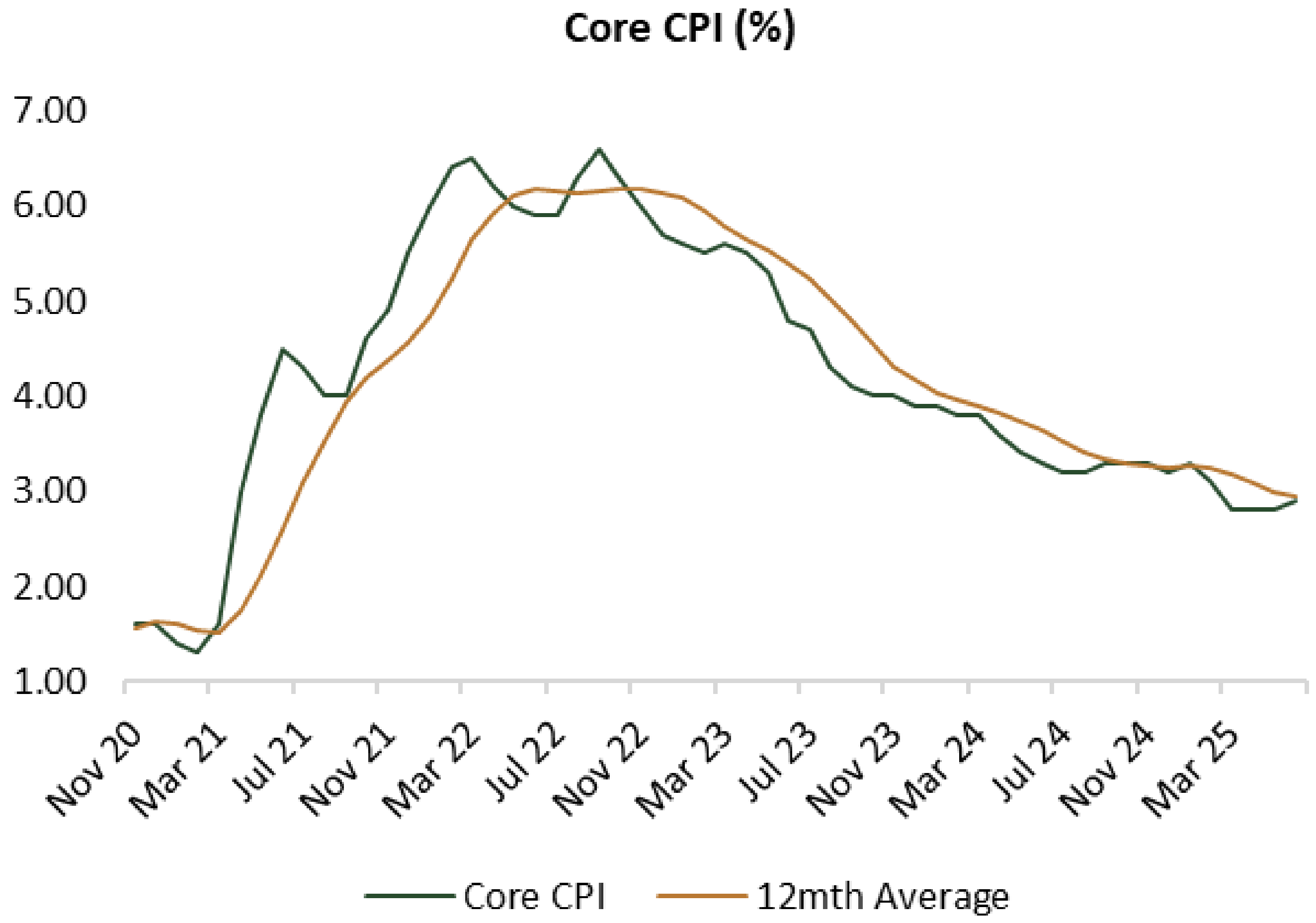
Tariffs not affecting prices...yet



Source: Bloomberg L.P., as of 18 Jul 2025

Surprisingly, consumer prices have remained subdued, even with tariffs on the horizon. Core CPI is still trending below its 12-month moving average, offering a sense of stability. But not all stability is reassuring.

If firms are absorbing higher input costs instead of passing them on to consumers, margin pressures could mount. This might not show up in CPI data immediately—but it could creep into earnings results down the line.

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Positioning data reveals that both individual and institutional investors are leaning bullish. Retail investors have posted their highest buying volumes in over a decade, particularly in names like Tesla and NVIDIA.

Institutional investors have followed suit, with a steep three-month rise in positioning and cash levels falling below post-COVID lows. A majority now expects a soft landing, while nearly half are anticipating two Fed rate cuts before year-end.

Interestingly, few are pricing in a resurgence in inflation. Only 6 percent expect global CPI to rise meaningfully in the coming 12 months.

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