Mason Stevens House View

July 2025

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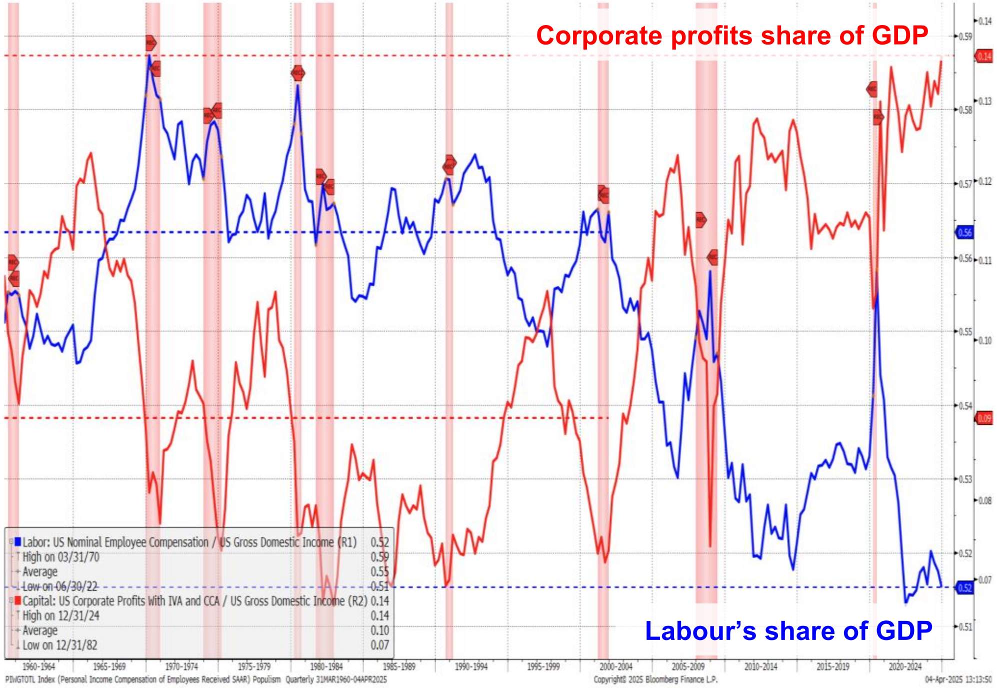
Can Trump rebalance the K-shaped economy?



Does it matter for markets?

No, the distributional effects of growth do not matter… today.

➔ Political instability risks if he fails.

Keep this dynamic in mind as we approach mid-terms…

➔ Trump may revert to aggressive tariff tactics to address voter unrest

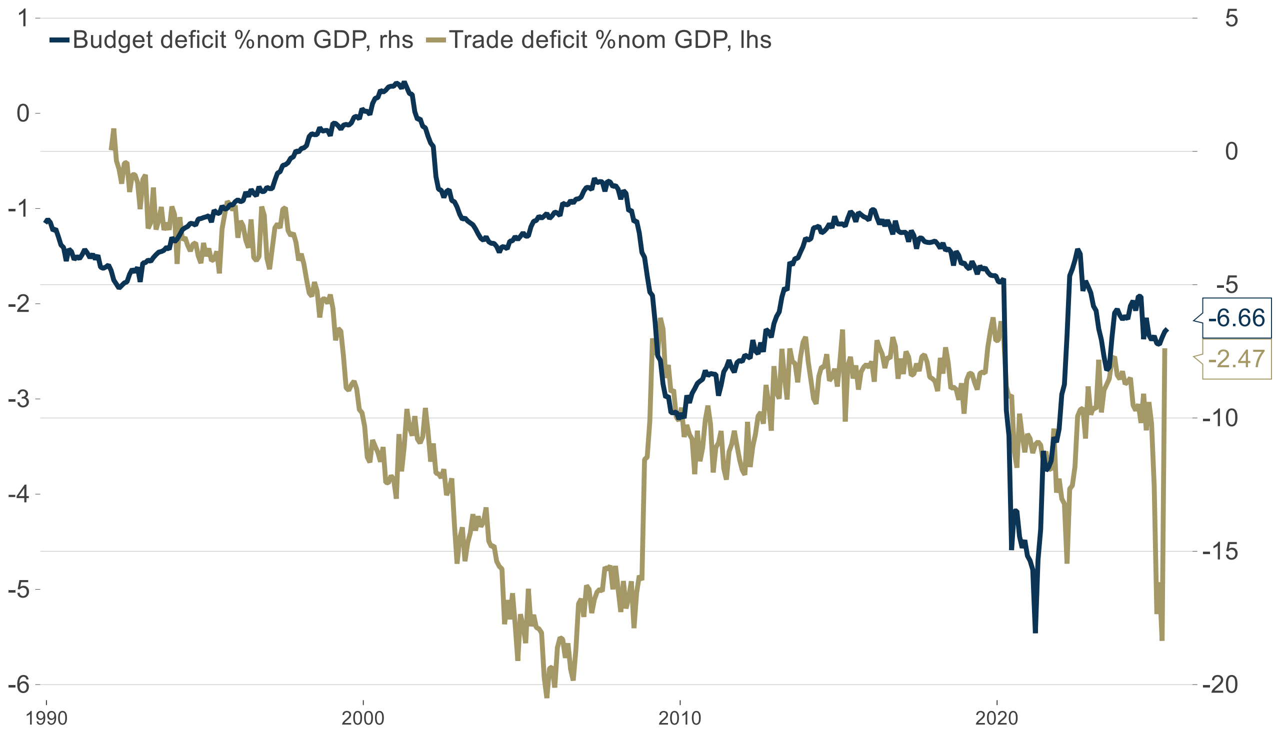
Source: Mason Stevens OCIO

Paradigm C far superior to paradigm B for markets

Paradigm A	Paradigm B	Paradigm C
• **The Biden Economy** • K-shaped • Status quo economic model characterised by excessive government spending • US exceptionalism	• **Trumponomics / Navarro's economy** • E-shaped • Upend the global trading system • Transition from public to private sector investment model • End of US exceptionalism	• **OG Trump 2.0 economy** • Fiscal and monetary largesse of A + pro-growth and deregulation sweeteners • Unlikely to swiftly address US fiscal imbalances, less likely to severely dent the economy in the process
	Markets were here in early April	Markets are now here

Source: Mason Stevens OCIO

A lot hinges on the success of the OBBB



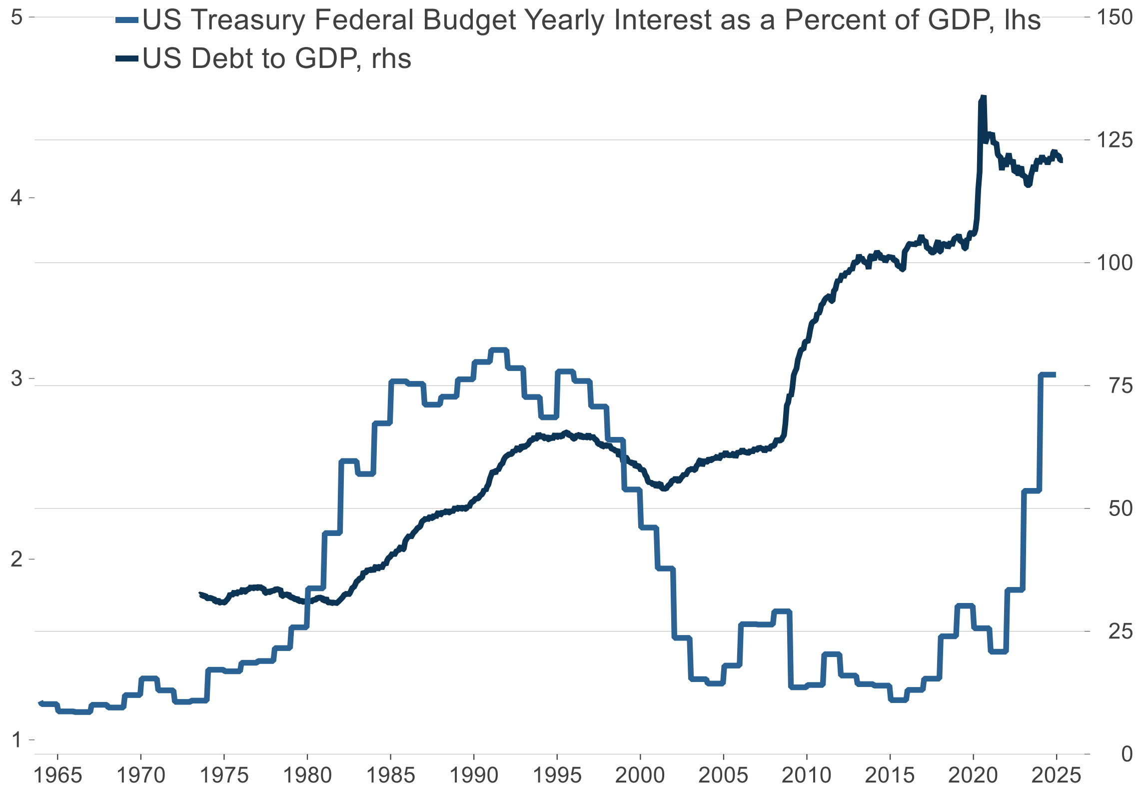
CBO expects no budget deficit improvement from the OBBB

↓

Markets set to become hyper-sensitive to real GDP

Source: Mason Stevens OCIO

… and if it will reduce US Debt-to-GDP



The US does have less counter-cyclical fiscal firepower in the event of a recession

Source: Mason Stevens OCIO

What’s in the One Big Beautiful Bill?

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Increases marginal income tax rates

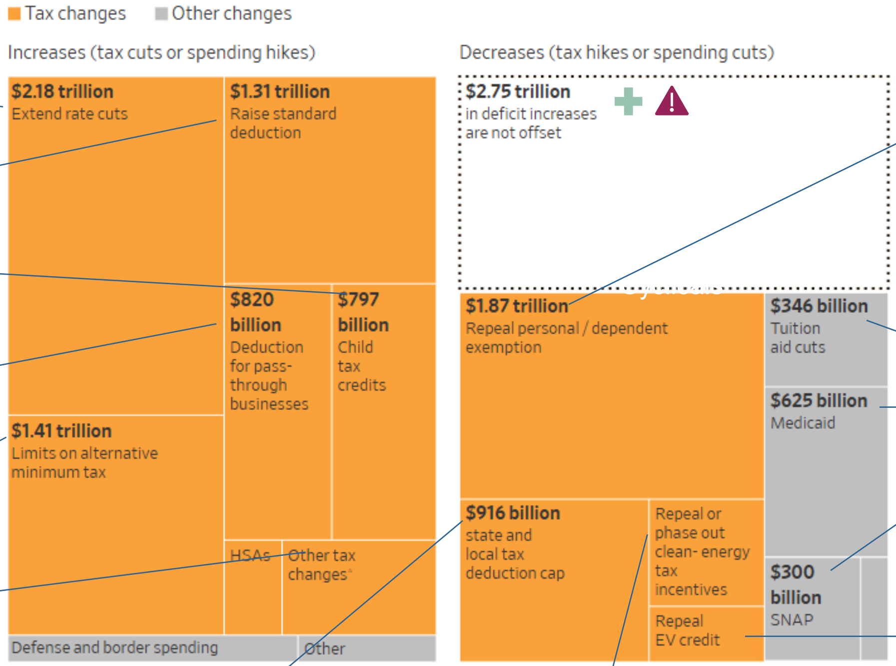
Raises standard tax deduction for people 65+

Keeps $2000 child tax credit in place + indexes to inflation

Income tax exemptions for US-domiciled businesses

Relaxes minimum tax criteria

No tax on tips (2025-2028)



Families no longer receive fixed tax deduction based on the number of dependents. This is somewhat offset by increases in deductibles and child tax credits

Stricter eligibility requirements for Tuition, Medicaid and Supplemental Nutrition Assistance Program

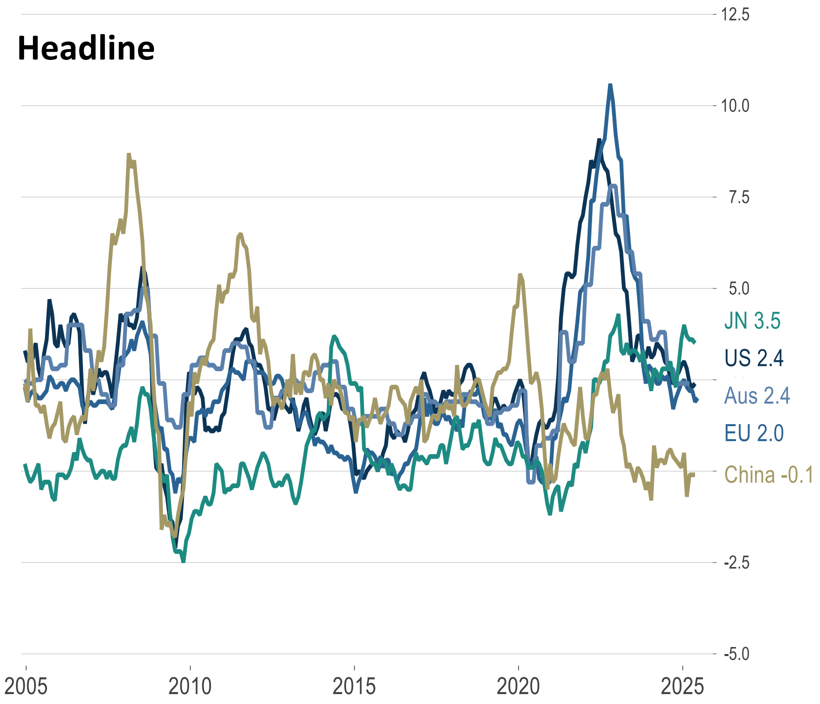
Tax credits for EV purchases significantly reduced

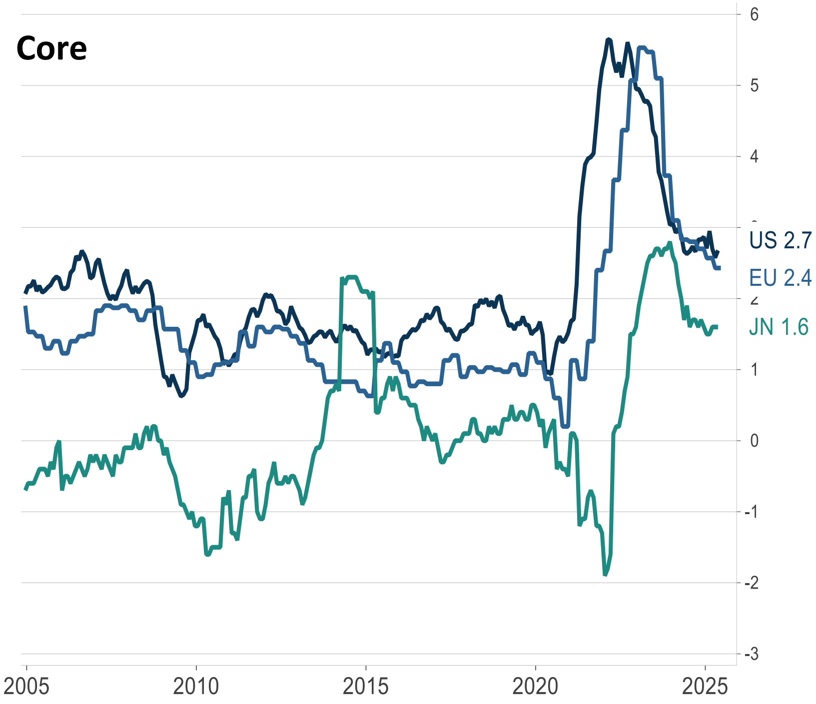
SALT Cap ‘Deduction’ (Currently $10k, expected to become $40k)

Ends or phases out clean energy tax credits passed under the Inflation Reduction Act

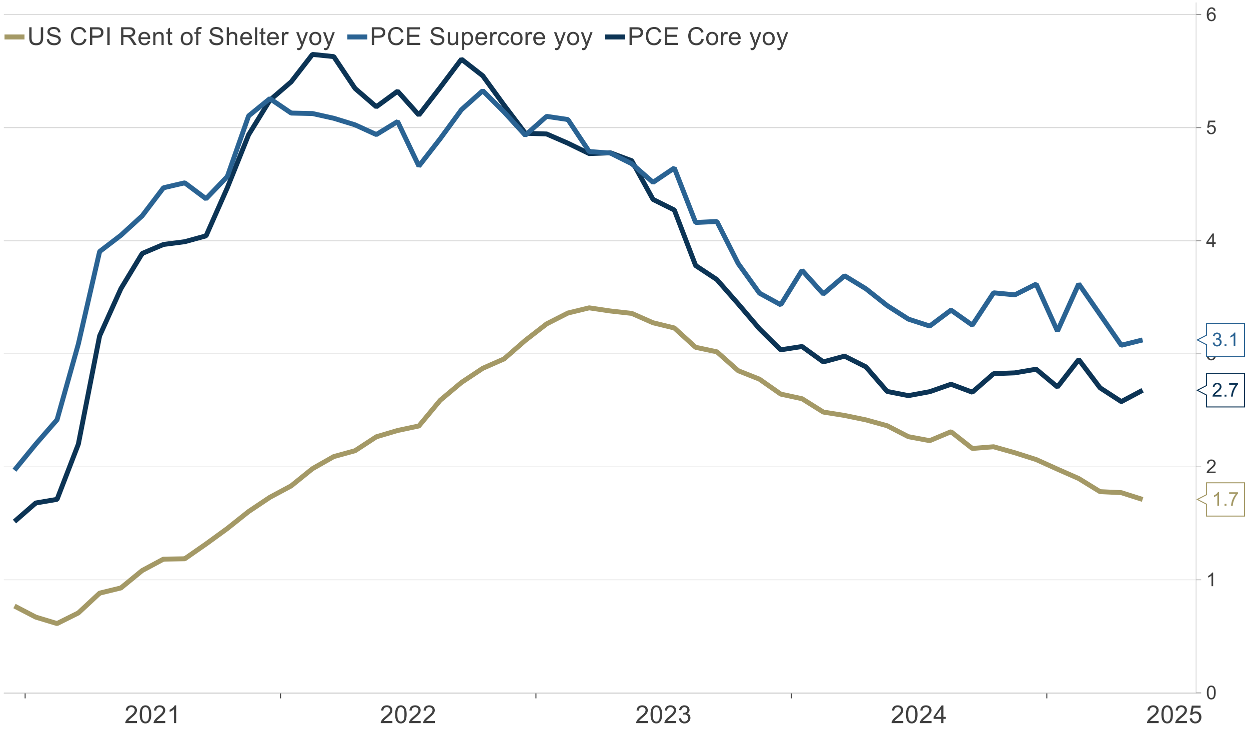
Source: Mason Stevens OCIO, WSJ, CBO

Inflation has been trending lower

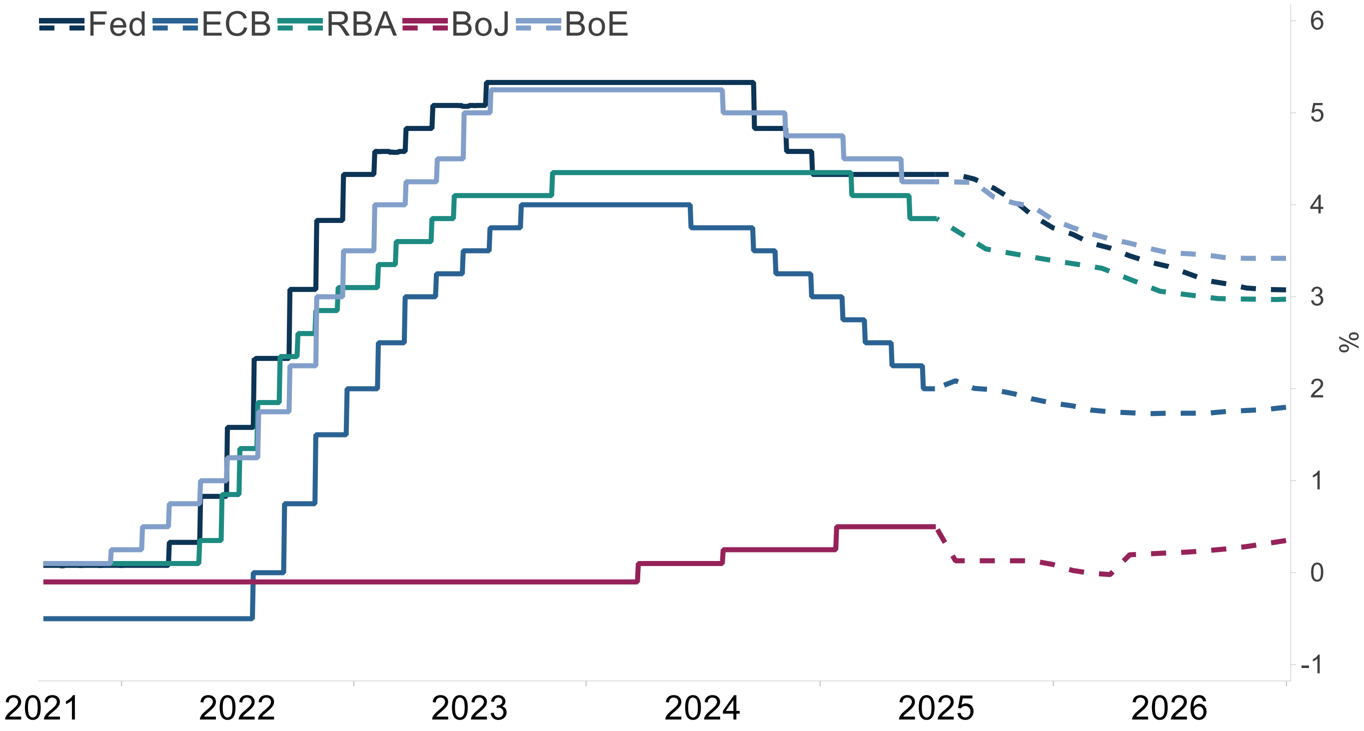




Underlying inflation dynamics are mixed

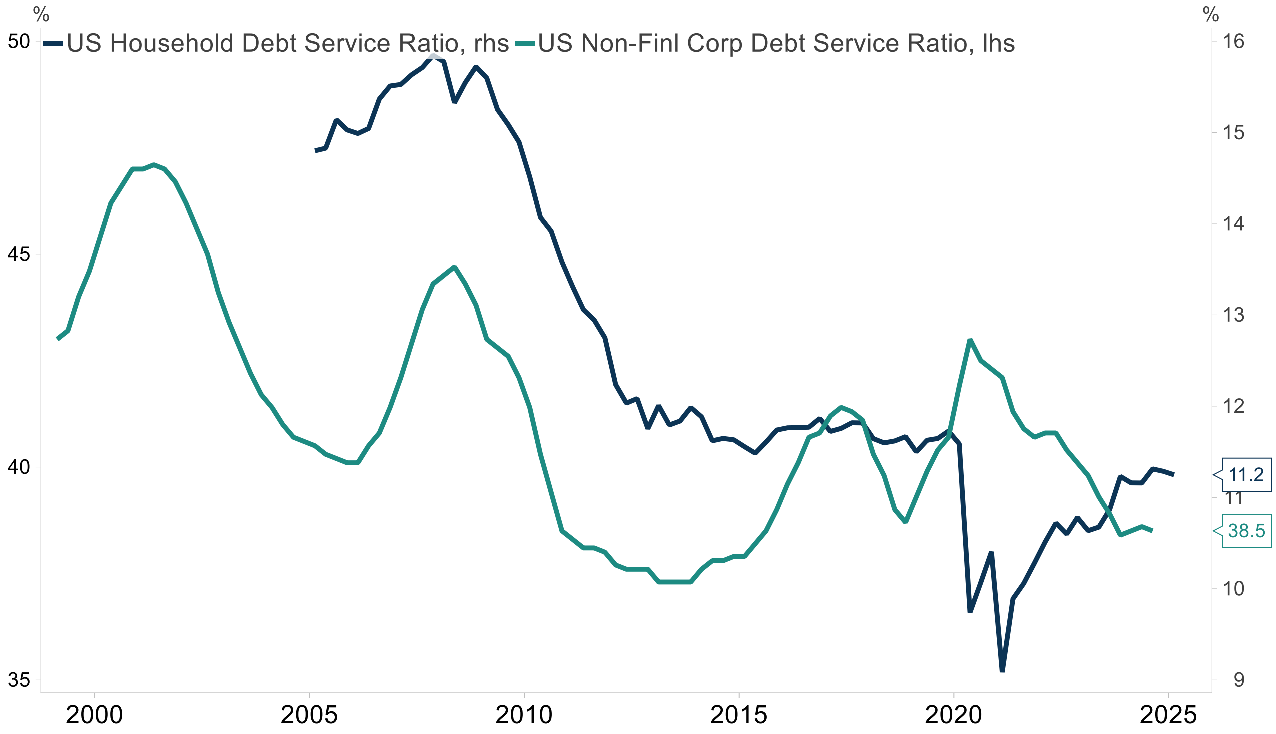


Monetary policy is not a headwind



Source: Mason Stevens OCIO

Households and Corporates are in good shape



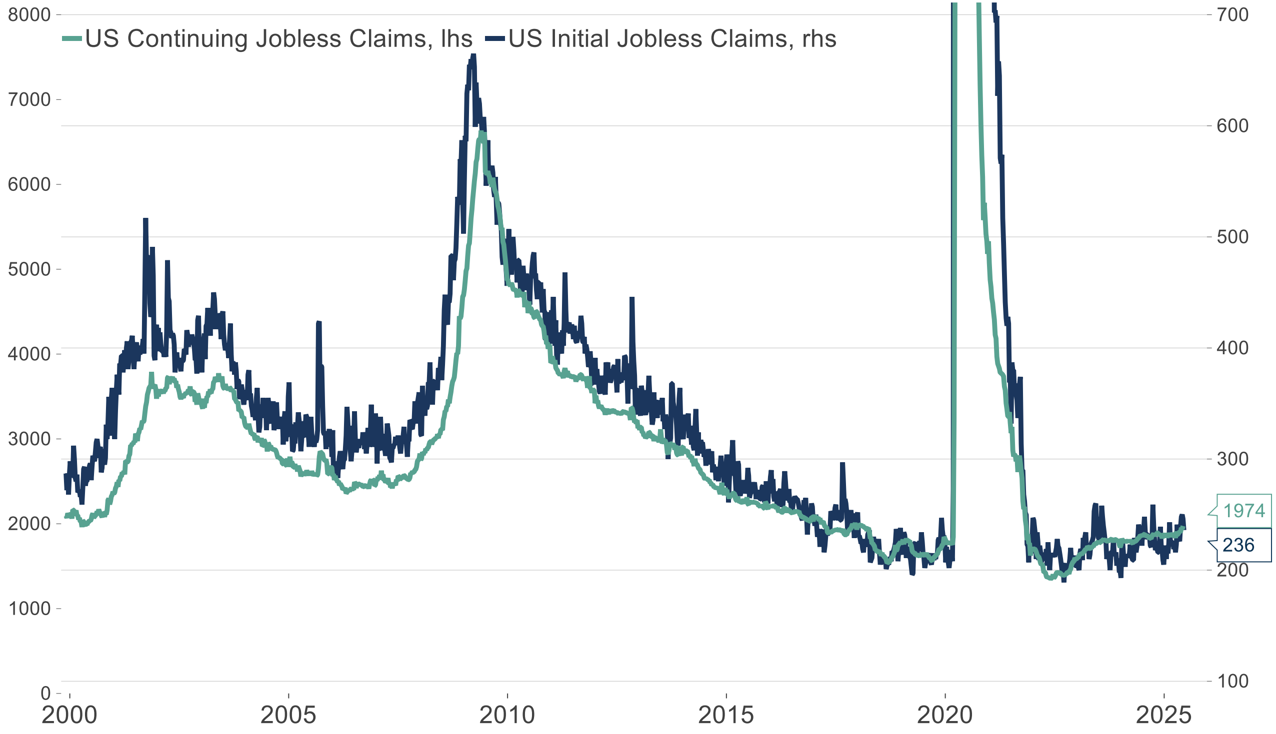
Source: Mason Stevens OCIO, Bloomberg

Headline mortgage rates overstate the debt servicing strain

Granted, they offer little incentive for new home purchases, or existing homeowners to move or renovate

Source: Mason Stevens OCIO, Bloomberg

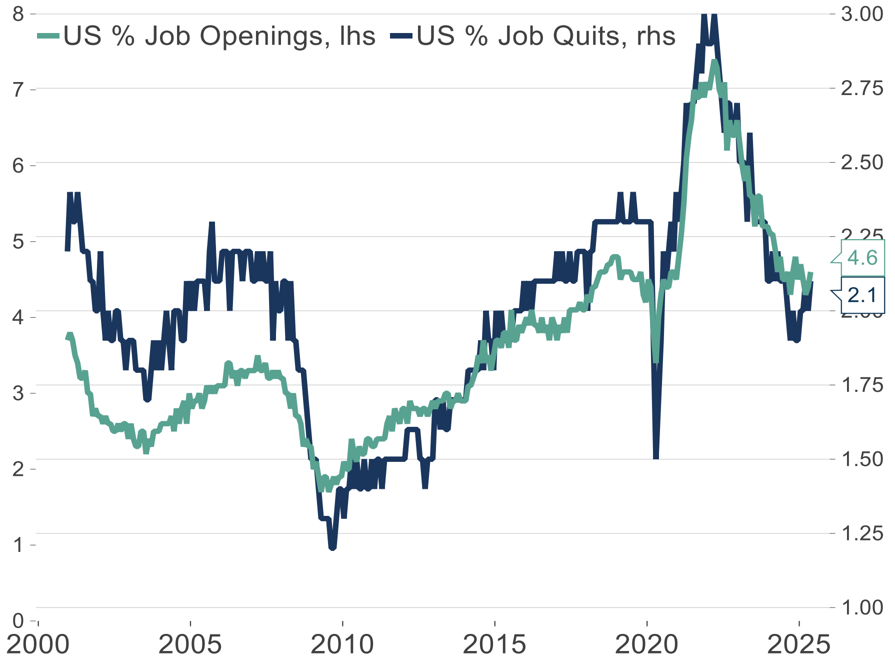
You need to zoom out when assessing jobless claims



We are watching for acceleration in initial and continuing jobless claims, but the level is not a concern

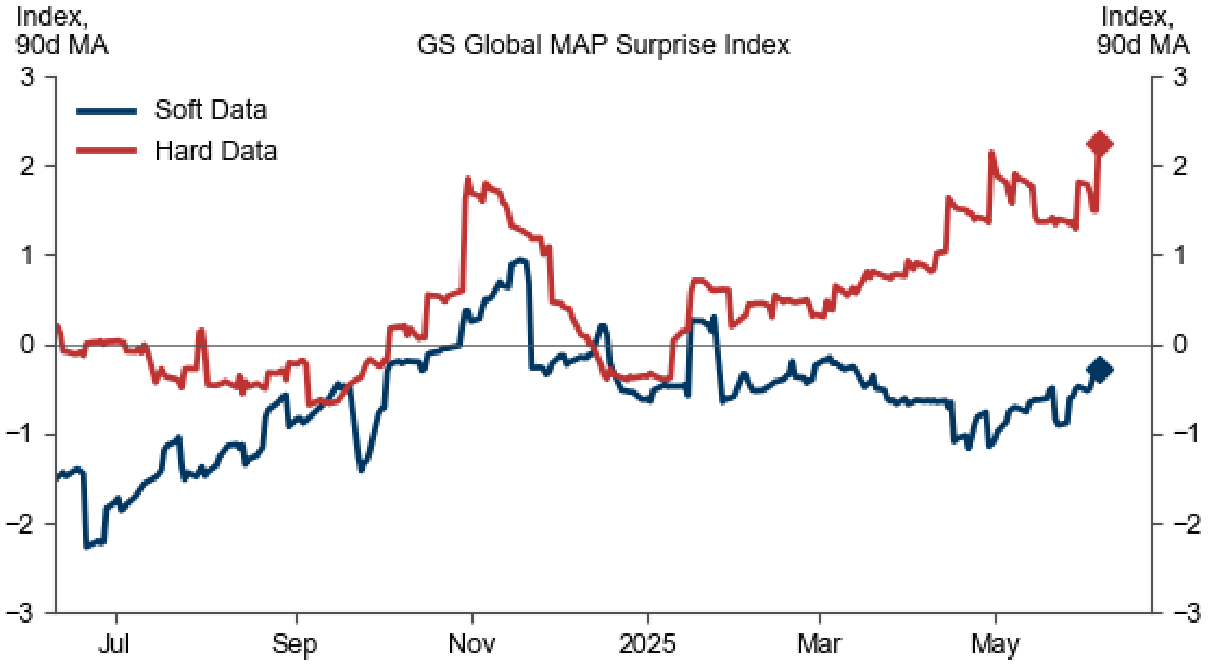
Source: Mason Stevens OCIO, Macrobond, Bloomberg

US Job Quits and Job Openings



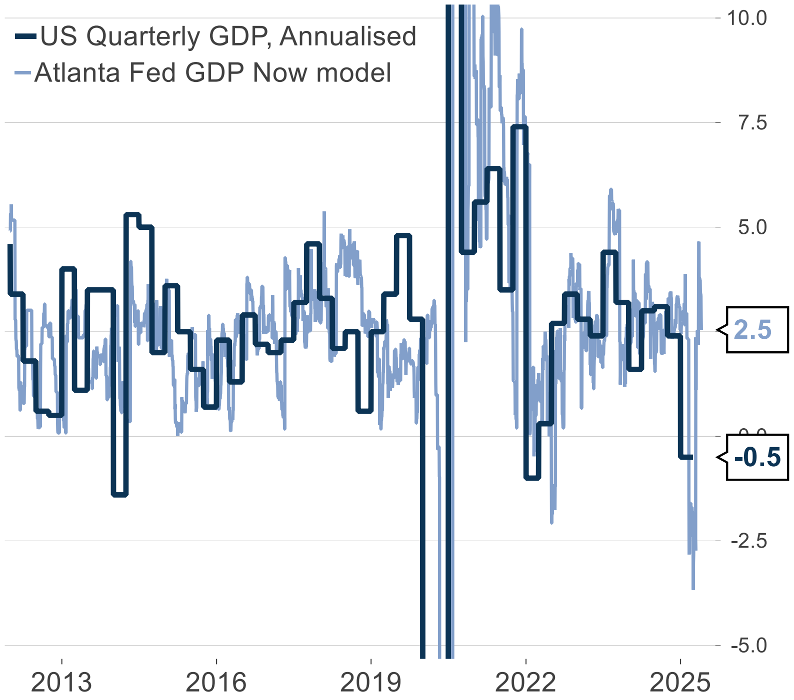
Source: Mason Stevens OCIO, Macrobond, Bloomberg

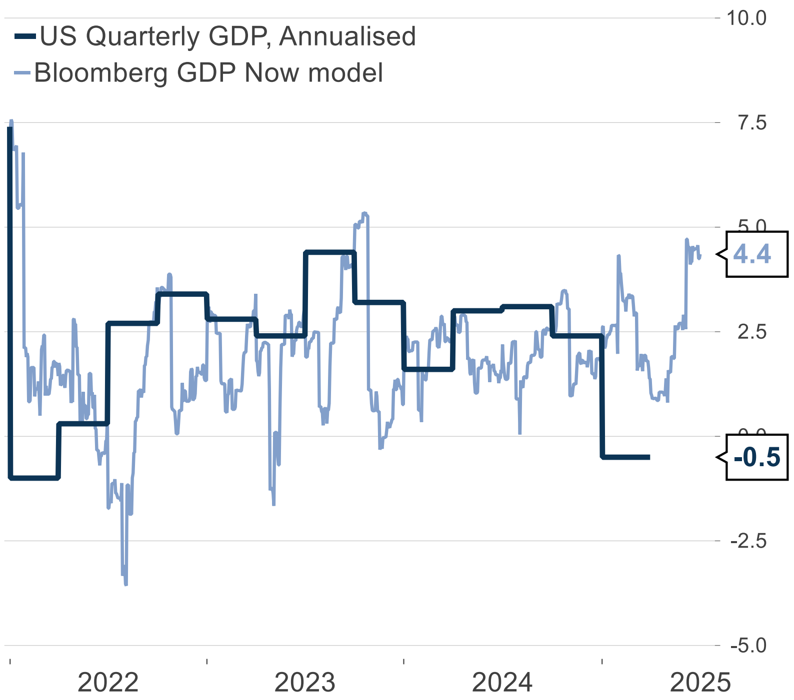
Hard data continuing to surprise to the upside



Source: Mason Stevens OCIO, Goldman Sachs Investment Research

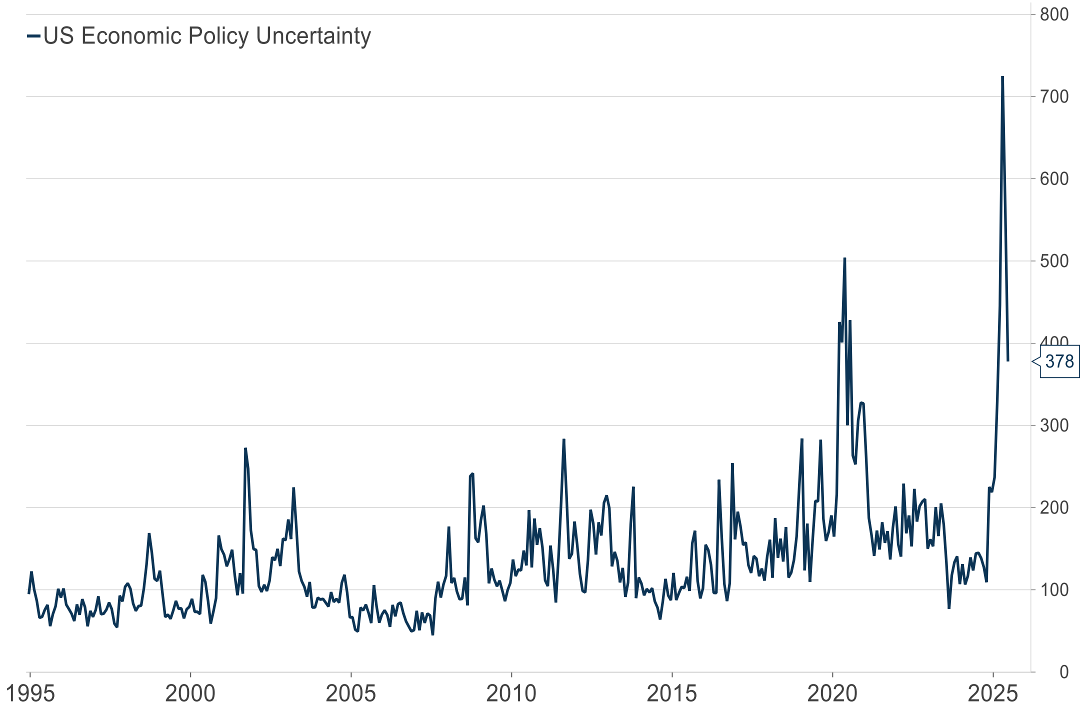
GDP Nowcast models pointing to strong growth





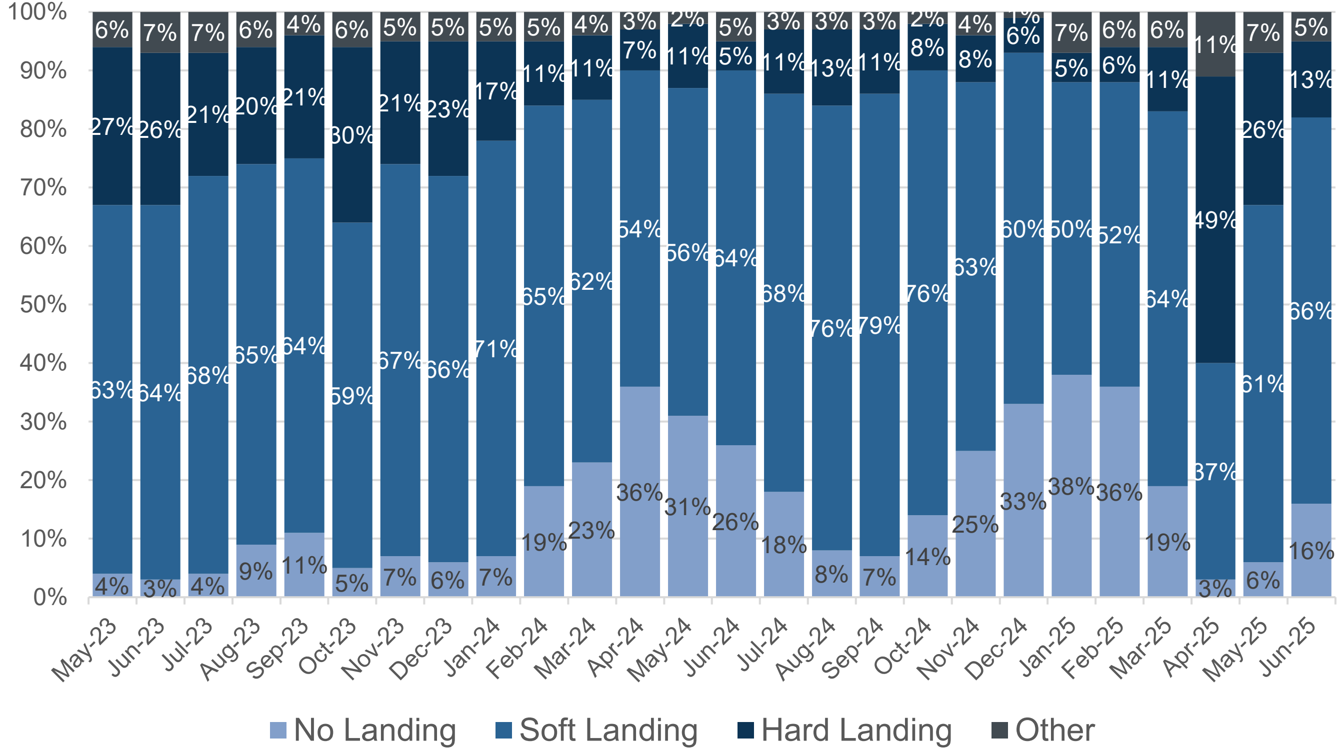
Source: Bloomberg, Mason Stevens OCIO

Uncertainty continues to deter some investors



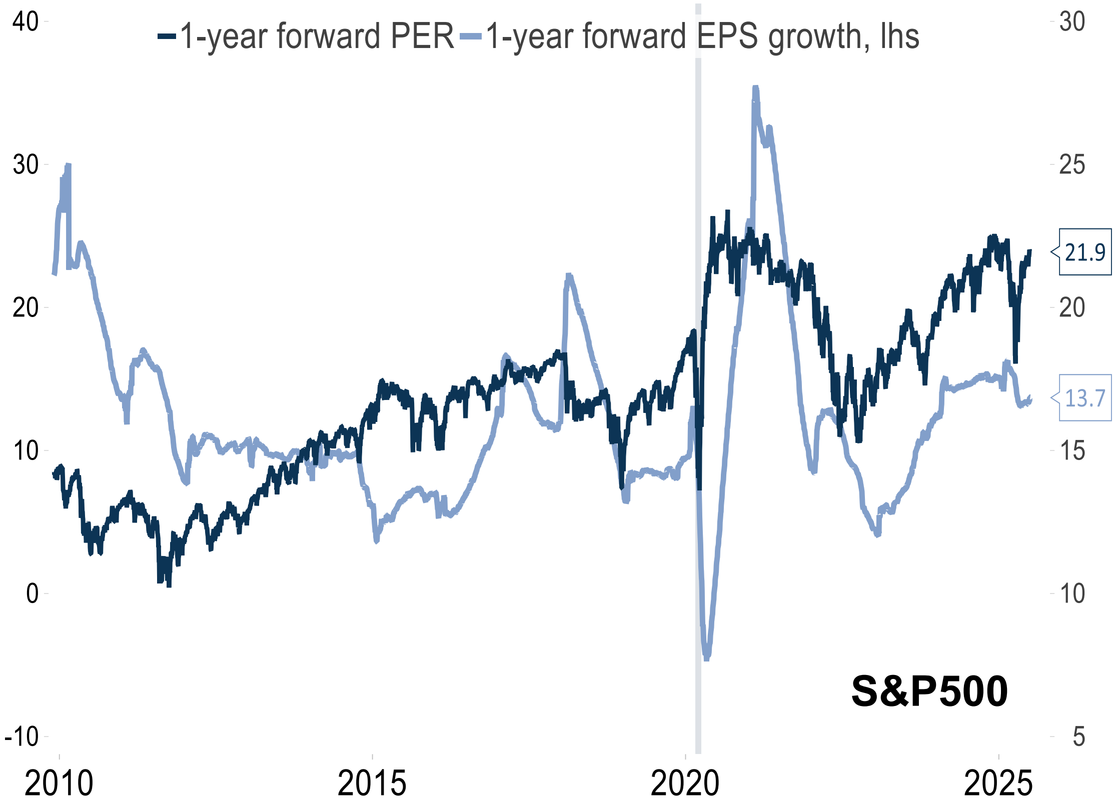
Source: Mason Stevens OCIO

Fund Manager sentiment continues to improve



Source: Mason Stevens OCIO, BofA Global Fund Manager Survey – BofA Global research

Valuations are an impediment to further risk taking

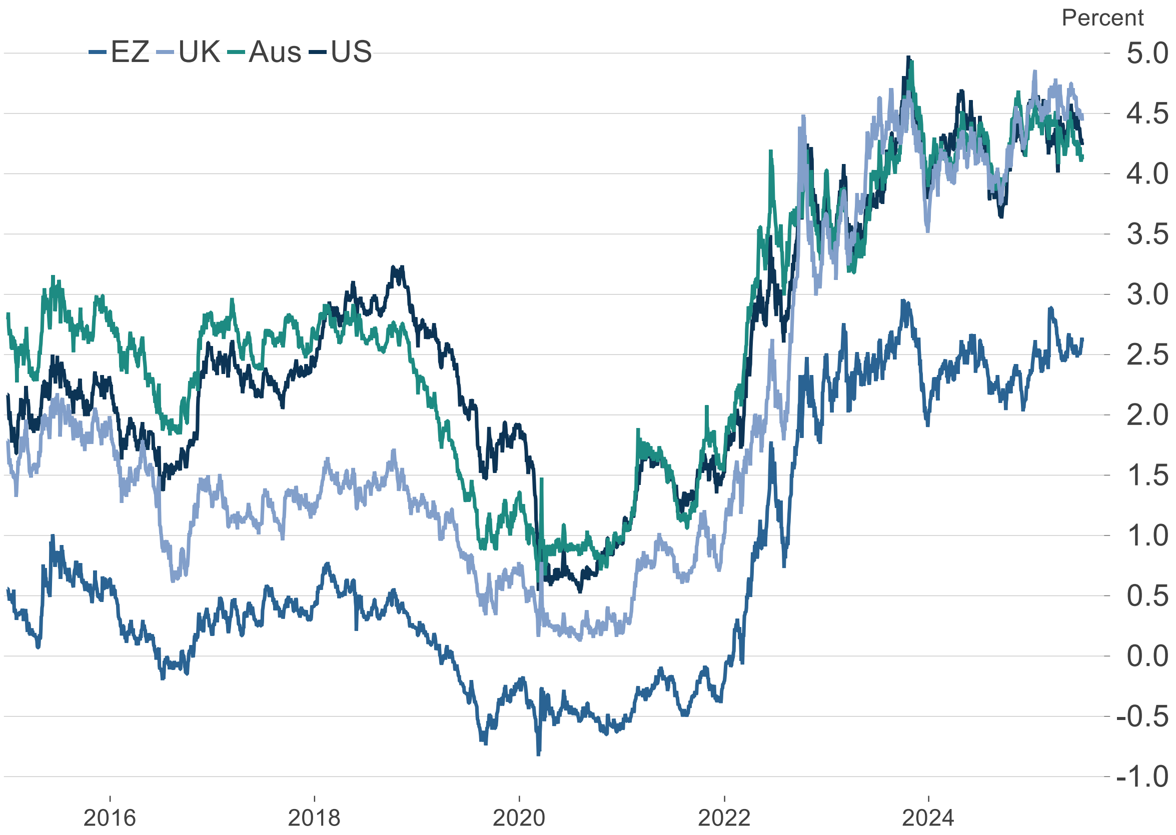


But not to Participating.

EPS have been revised somewhat lower to account for tariff risks

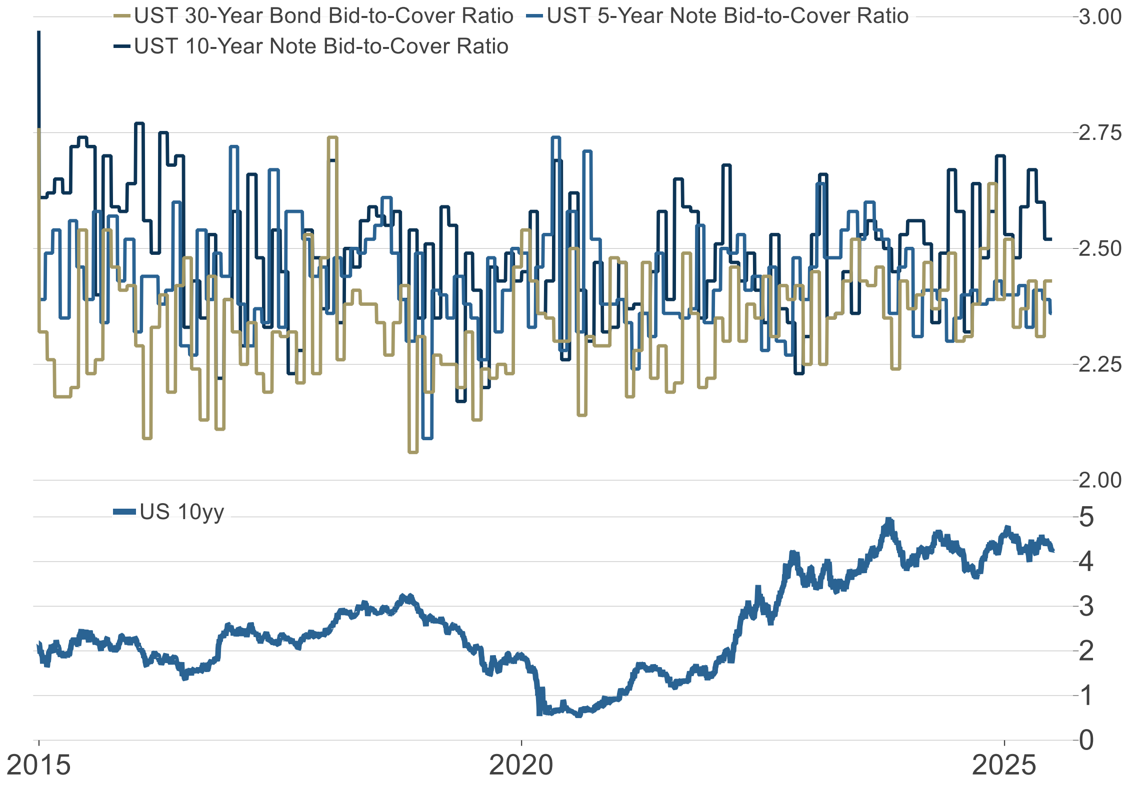
Source: Mason Stevens OCIO

Interest rates have stabilised



Source: Mason Stevens OCIO

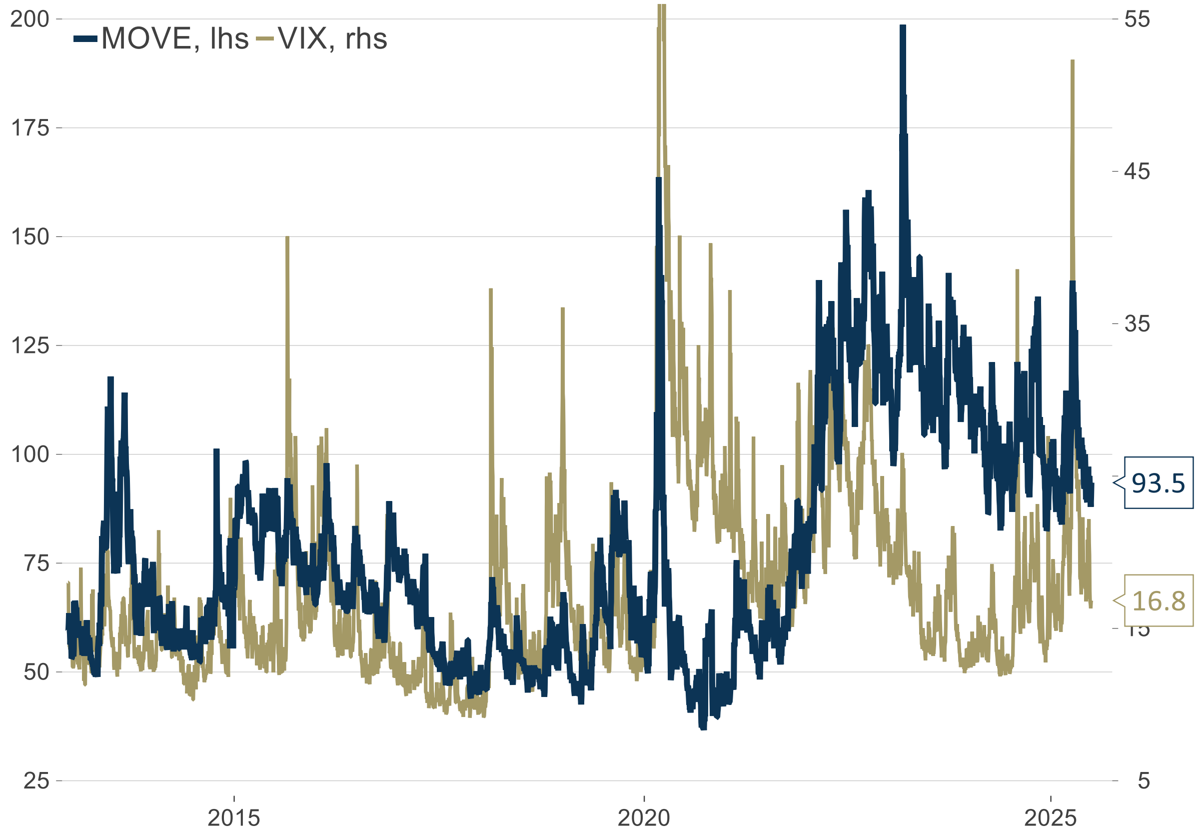
Bond markets are functioning normally post Bessent's intervention



US Treasury auctions have by and large been orderly

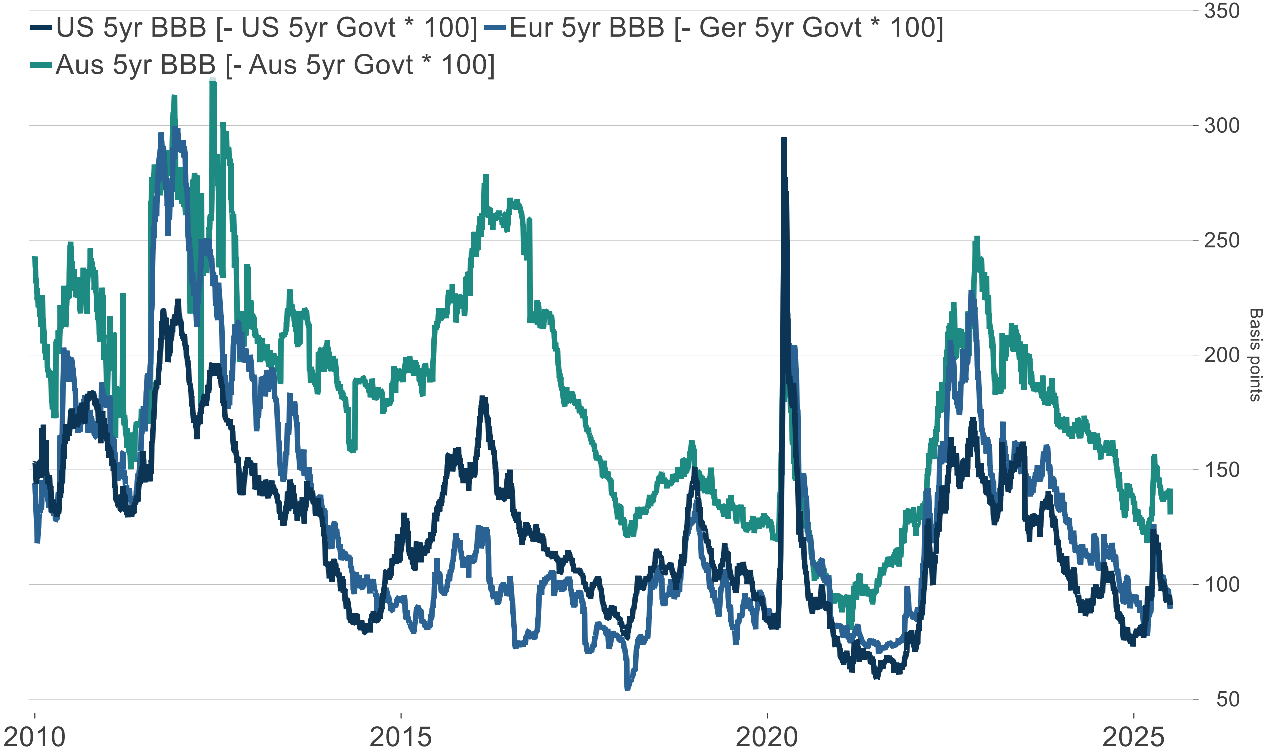
Source: Mason Stevens OCIO

Equities on the TACO trade, bonds remain wary



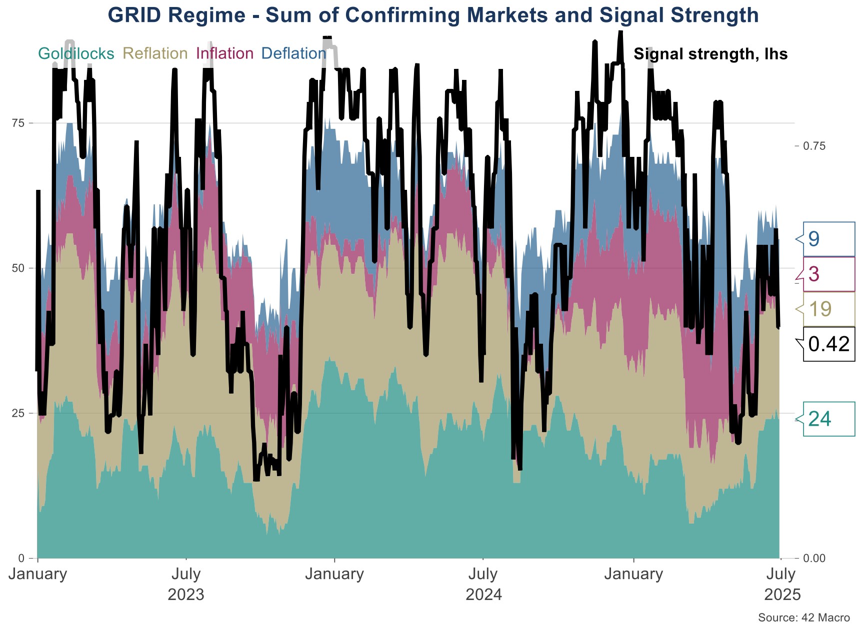
Source: Mason Stevens OCIO

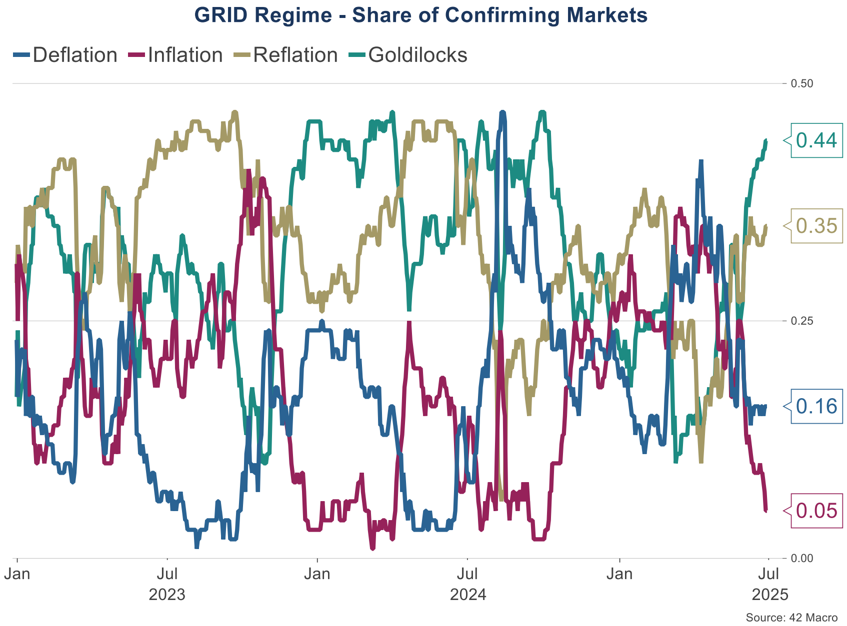
IG credit spreads contracting



Source: Mason Stevens OCIO, Bloomberg

Market-based GRID regimes remain Risk-On





Source: 42 Macro, Mason Stevens OCIO

MS OCIO scenarios and probabilities

	Risk On		Risk Off	
	Goldilocks (Soft Landing) Growth – up Inflation - down	**Reflation (No Landing)** Growth – up Inflation - up	**Inflation (Stagflation/technical recession)** Growth – down Inflation - up	**Deflation (Global Real Recession)** Growth – down Inflation - down
Probability	**35%**	**30%**	**20%**	**15%**
Drivers, monetary and fiscal environment	Robust consumer and corporate balance sheets, combined with productivity growth and continued disinflation allow central banks continue to cut rates as disinflation trends continue. Tariffs are walked back/re-negotiated and do not negatively impact global economic growth in concert with other policies.	Animal spirits and Trump pro-business policies outweigh negative tariff effects combined with economic momentum mean economic growth remains robust. Central banks slow or pause the cutting cycle however economic momentum continues and inflation increases but not to sufficient levels for the Fed to pivot.	Trump's tariff policies and the associated uncertainty cause inflation to rise and global growth to slow resulting in a swift and mild recession. Global bonds markets may also experience a period of heightened volatility on debt sustainability concerns. Pro-growth fiscal and tax policies eventually kick in to underpin the recovery.	Trump's aggressive tariff policies weigh on confidence and investment, and retaliatory tariffs cause a deeper recession. Central banks are late to respond potentially due to lingering inflation concerns. This scenario also captures exogenous shocks, e.g. the Chinese economy collapsing.

Source: Mason Stevens OCIO

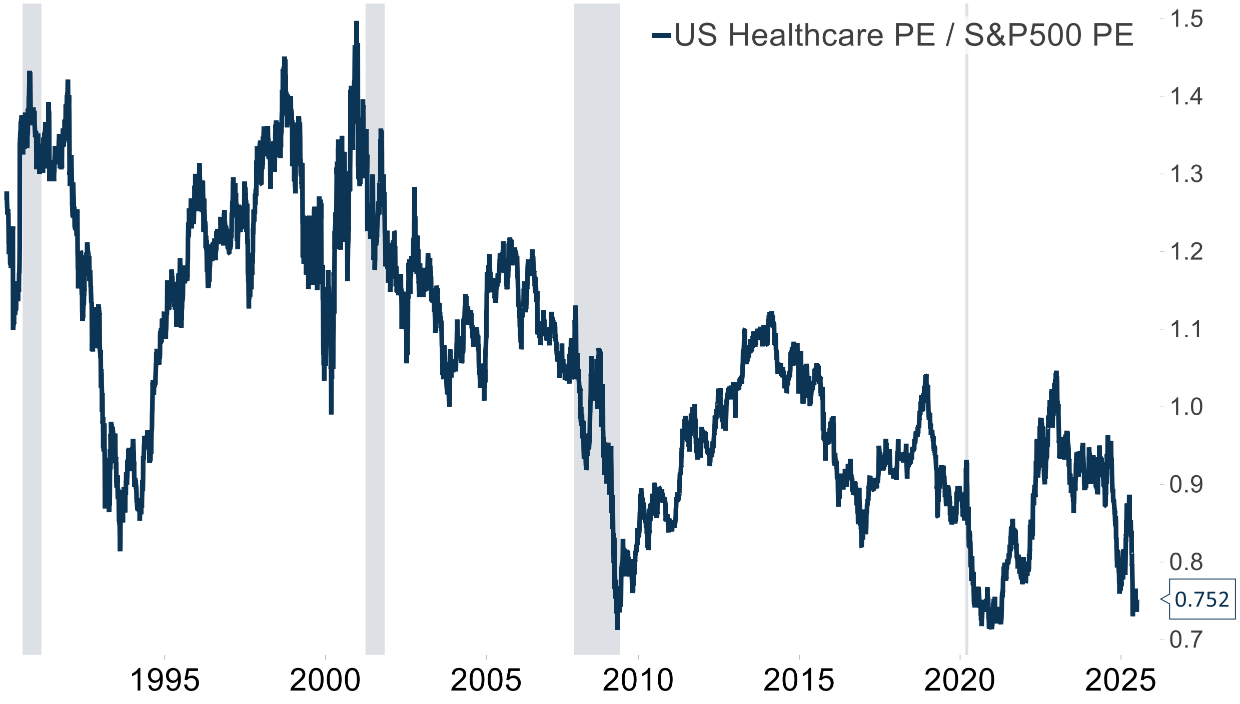
Technology: US and China is not a zero-sum game

US remains in a market leading position with strong earnings growth.

China is an emerging player with valuation appeal (and state backing)

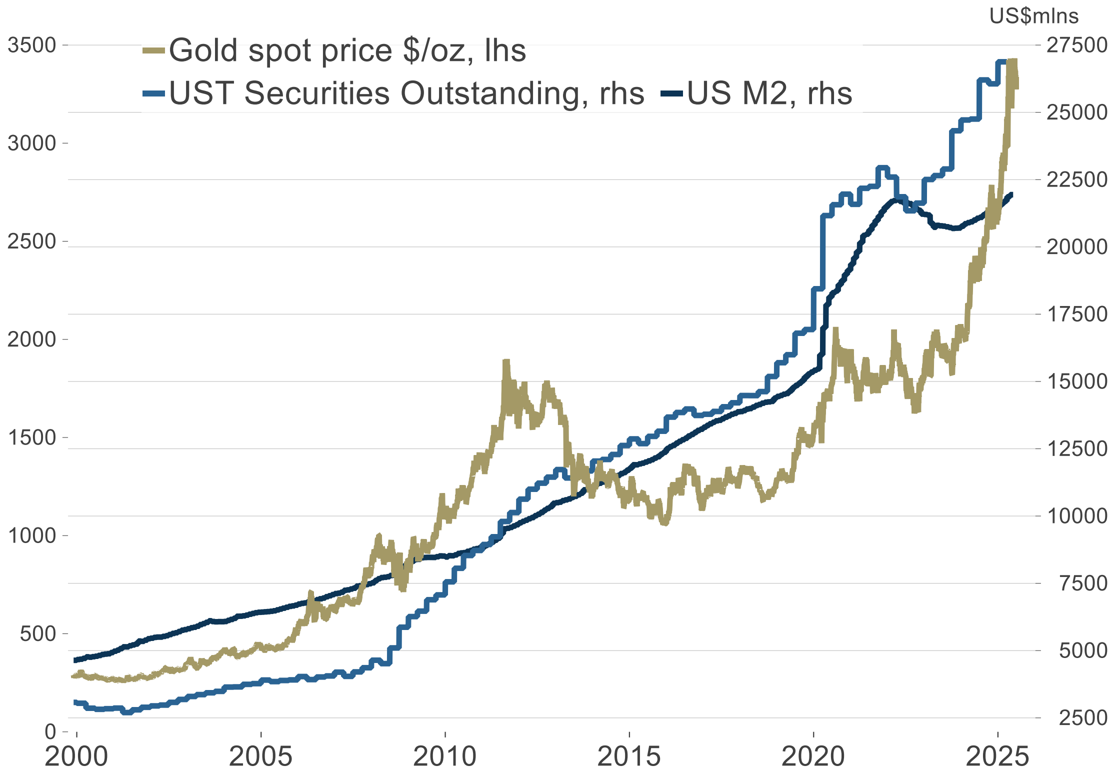
Source: Mason Stevens OCIO

Healthcare valuations are attractive vs S&P500



Source: Mason Stevens OCIO

Gold – medium term tailwinds remain in place



Namely: Diversification (vs global bonds), De-dollarisation, Inflation, Geopolitics

Source: Mason Stevens OCIO

Potential secular tailwind story – EU Defence

Source: Mason Stevens OCIO

MS OCIO 'GEM' model

Status:

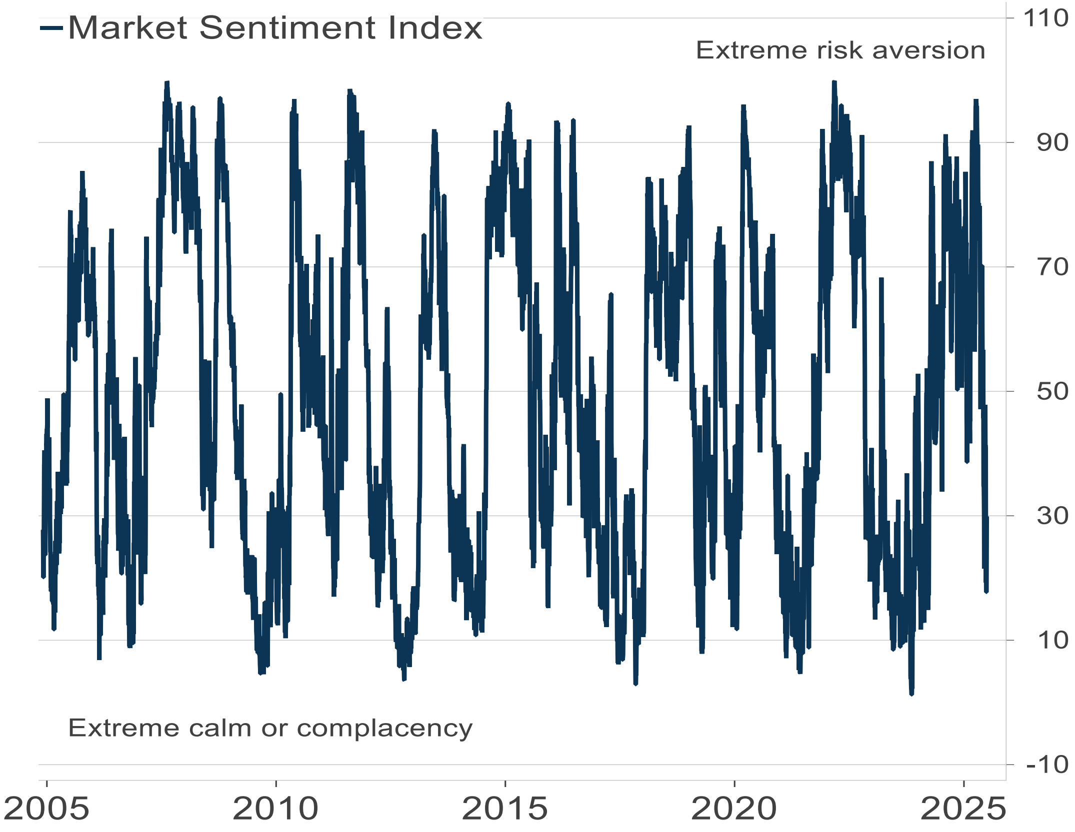
- Strong tailwind
- 11/12 global markets positive (SK will turn positive this week)

Date	GEM signals, past 26 weeks											
Index ->	S&P500	Eurostoxx 50	ASX200	Asia 50	EM	EM ex-China	Nasdaq	S&P500 Eq. Wt	UK	South Korea	Asia Tech	World ex-Aus
TF implementation ->	IVV	ESTX	A200	IAA	IEM	EMXC	NDQ	QUS	F100	IKO	ASIA	BGBL
24-Jun-25	↑	↑	↑	↑	↑	↑	↑	↑	↑	→	↑	↑
17-Jun-25	↑	↑	↑	↑	↑	↑	↑	↑	↑	→	↑	↑
10-Jun-25	↑	↑	↑	↑	↑	↑	↑	↑	↑	→	↑	↑
3-Jun-25	↑	↑	↑	↑	↑	↑	↑	↑	↑	→	↑	↑
27-May-25	↑	↑	↑	↑	↑	↑	↑	→	↑	→	↑	↑
20-May-25	→	↑	↑	↑	↑	↑	↑	→	↑	↓	↑	↑
13-May-25	→	↑	↑	↑	↑	→	→	→	↑	↓	↑	→
6-May-25	→	↑	→	→	↑	→	→	→	→	↓	→	→
29-Apr-25	→	↑	→	→	↑	→	→	→	↑	↓	→	→
22-Apr-25	→	↑	→	→	↑	→	→	→	↑	↓	→	→
15-Apr-25	→	↑	→	→	↑	→	→	→	↑	→	↑	→
8-Apr-25	→	→	→	→	→	→	→	→	→	→	→	→
1-Apr-25	→	↑	→	↑	↑	→	→	→	↑	↓	↑	↑
25-Mar-25	↑	↑	↑	↑	↑	→	→	↑	↑	↓	↑	↑
18-Mar-25	↑	↑	↑	↑	↑	→	↑	↑	↑	↓	↑	↑
11-Mar-25	↑	↑	↑	↑	↑	↑	↑	↑	↑	↓	↑	↑
4-Mar-25	↑	↑	↑	↑	↑	↑	↑	↑	↑	↓	↑	↑
25-Feb-25	↑	↑	↑	↑	↑	↑	↑	↑	↑	→	↑	↑
18-Feb-25	↑	↑	↑	↑	↑	↑	↑	↑	↑	→	↑	↑
11-Feb-25	↑	↑	↑	↑	↑	↑	↑	↑	↑	→	↑	↑
4-Feb-25	↑	↑	↑	↑	↑	↑	↑	↑	↑	→	↑	↑
28-Jan-25	↑	↑	↑	↑	↑	↑	↑	↑	↑	↓	↑	↑
21-Jan-25	↑	↑	↑	↑	↑	↑	↑	↑	↑	↓	↑	↑
14-Jan-25	↑	↑	↑	↑	↑	↑	↑	↑	↑	↓	↑	↑
7-Jan-25	↑	↑	↑	↑	↑	↑	↑	↑	↑	↓	↑	↑
31-Dec-24	↑	↑	↑	↑	↑	↑	↑	↑	↑	↓	↑	↑

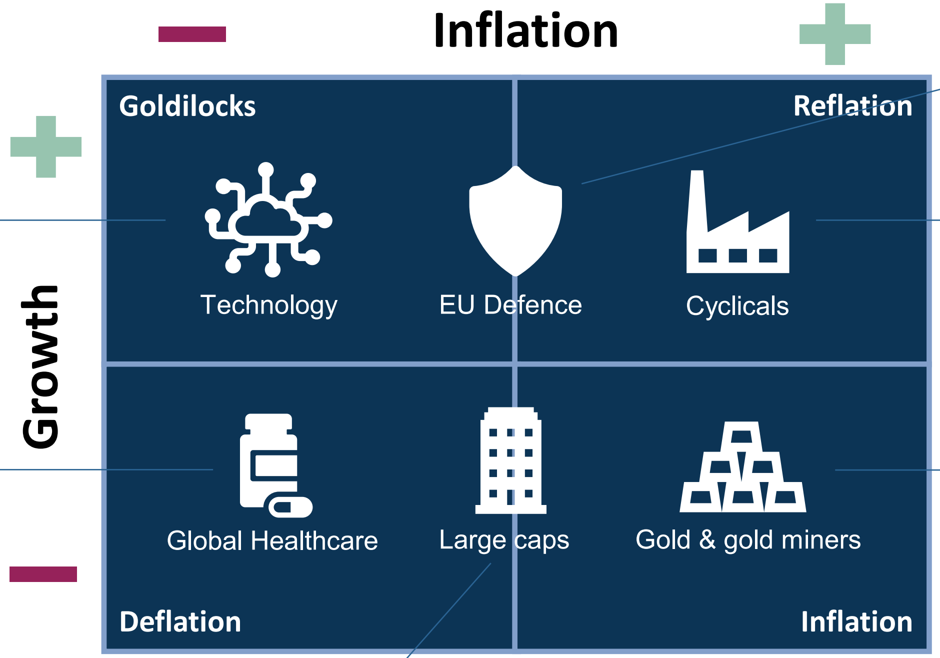
Global Market Sentiment

Status: Moderate tailwind

- Normalisation phase from a state of heightened volatility nearly complete
- Residual positive momentum



Sector, thematic and style preferences in the context of GRID



US global defence umbrella withdrawal prompting huge investment in EU Defence and Infrastructure. EU also in desperate need of growth

Ongoing secular growth story. Sector is of strategic importance to US & China supported by regulatory and fiscal policies

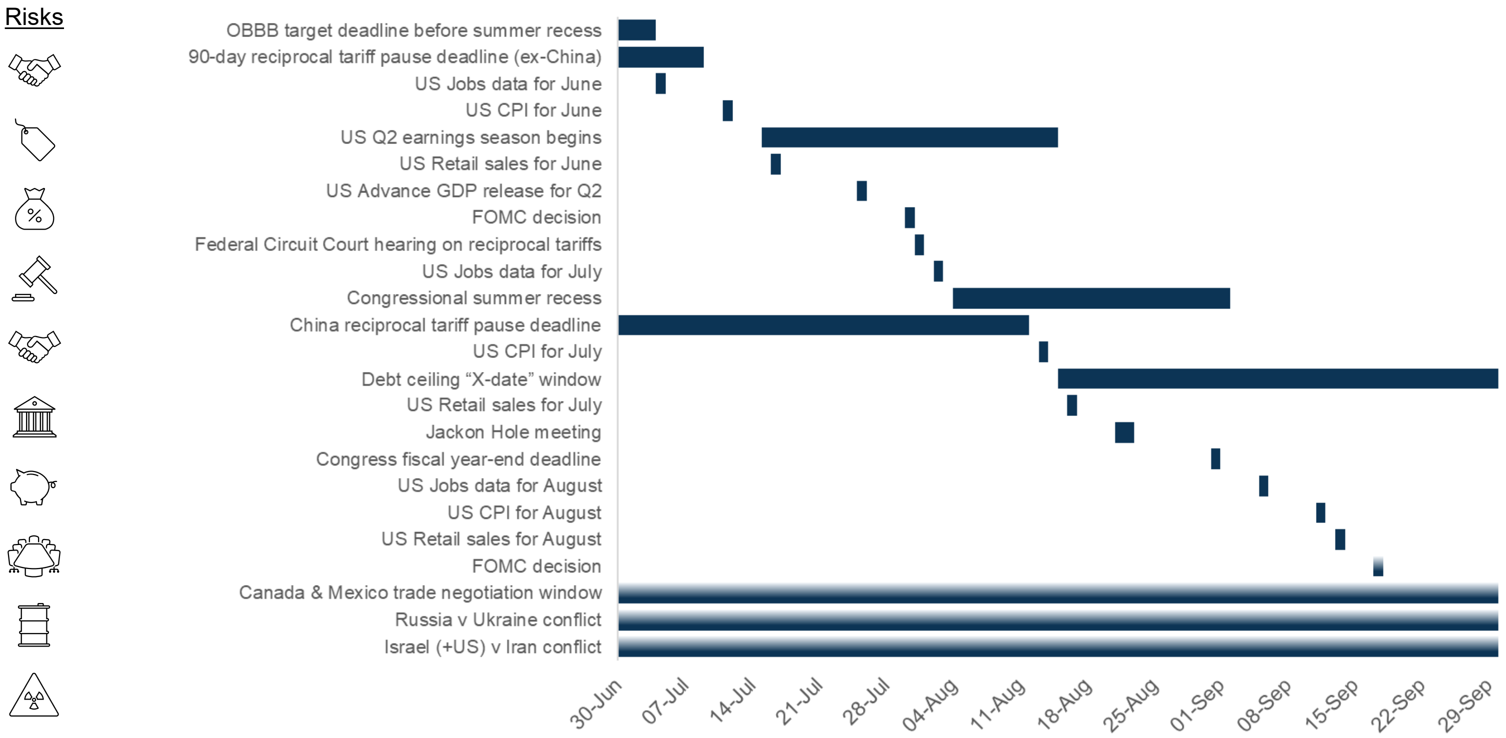
BBBA (Big Beautiful Bill Act) to stoke wave of US investment in conjunction with deregulation tailwinds

Defensive sector, aggressively discounted on concerns surrounding Trump MFN (most favoured nation) proposal. Risks are priced and potentially overblown

BBB, tariffs, de-dollarisation and broader global government bond diversification remain supportive of Gold over the medium term

Large cap and quality factor bias adds to portfolio resilience should economic conditions deteriorate

Q3 Key Events Timeline

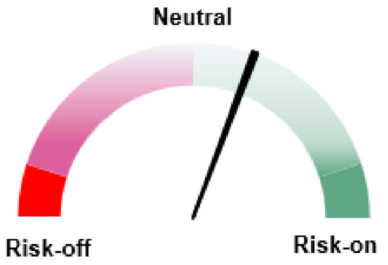


Source: Mason Stevens OCIO, Bloomberg

Re-cap and outlook

- **Tariff headline risks are being replaced with more modest tariff-induced inflation risks**
- The inflation implications of Trump's tariff policies remain unclear, and **we believe market forecasters over emphasise the higher inflation scenarios**. In our assessment, the inflation outlook is more balanced with the potential for dovish surprise
- The One Big Beautiful Bill, or **OBBB is expansionary**. Remember that debt = growth!
- **Staying on the sidelines could prove costly**. Consequently, we have shifted **overweight Growth Assets**
- Within that, neutral Australian equities, overweight International equities – **be selective**. Our DAA tilts comprise a selection of sectors supported by secular and thematic tailwinds and diversification utility, namely: European Defence, US and China Tech, and Global Healthcare
- Neutral Growth Alternatives with a **preference for Gold** over Trend Following strategies.
- **Overweight Defensive Alternatives** with a preference for Private Credit and Absolute Return Bond strategies
- In Fixed Income, neutral duration with an underweight allocation to International Fixed Income to fund Growth tilts. At a sub-sector level, we are **moving up the risk spectrum by leaning into IG and private credit exposures** in both the Australian and International markets
- Neutral cash

Positioning:



Source: Mason Stevens OCIO