

Monthly Market Update

Whenever I tend to waver on clarity, I am gently reminded of a quote by Yoda from “The Empire Strikes Back”. The quote is “Do or do not. There is no try”. The principal of investing demands an unwavering conviction and clarity. At Aditum, we consistently uphold this philosophy across all our investment decisions.

Before we delve in, let’s take a moment to reflect on the Tendulkar Cricket Trophy between India and England. There is truly no better format of the game than Test cricket, a perfect blend of resilience from the batsmen, who must endure the testing conditions of English pitches, and relentless perseverance from the bowlers. It was a memorable series to watch, especially the last test.

It is always exciting to prognosticate on the markets, so here are a few bold calls as a starting point for this monthly update.

1. We foresee sustained weakness in the US dollar through to the end of 2025, with no imminent events likely to halt or reverse this trajectory. A decline to 95 on the DXY index remains a realistic target. The way to capitalise on this opportunity is by taking a long position in a basket of emerging markets currencies versus the US dollar.
2. From a fundamental standpoint, a stronger Japanese yen is well supported, and we project it could appreciate to 140 by year end. Outright exposure to Japanese stocks would be a dual play to participate in the trade.
2. We anticipate the Federal Reserve will cut rates by 75 basis points in 2025, a bold projection given there are only three remaining meetings this year.
3. Elevated valuations in US equity markets continue to raise concerns, making a 15% correction from the current S&P 500 level of 6,394 a plausible scenario. Consider incorporating out-of-the-money downside protection strategies for long positions.
4. Our bearish outlook on oil persists, with a move below \$55 per barrel appearing likely without being overly alarmist.
5. Discussions of a US recession are becoming less surprising, and we expect a potential hard landing.

Our preferred Asset allocation for Q4 2025 would be as follows:

1. Equity 45-50% (Overweight DAX, Overweight Tech stocks)
2. Fixed Income 35-40%
3. Gold 7-10%
4. Cash - the remainder

Japan is appropriately positioned between a rock and hard place. Inflation (wage gain and rising price expectations) is a clear and present danger, however the BoJ is hard pressed to push ahead with rate hikes as the tariffs situation is still not clear, and the political instability is also not helping. We expect a maximum of 10 basis point rate hike from the BoJ for FY 2025. The tariffs path remains unclear, as Japan’s Prime Minister indicated, the tariffs deal is a win-win but hard to implement. It is, however, not too difficult to be bullish Japanese equity, even though political uncertainty lingers. We continue to advocate an overweight stance within the (unhedged) equity space. This theme is driven by continued inflation pressures and yen strength.

The recent imposition of tariffs on India has sent shockwaves through global markets, underscoring the complex dynamics of energy trade and geopolitics. Based on the latest report, Russia has earned a staggering EUR 923 billion from fuel exports to date. Of this, Europe accounted for EUR 212 billion. China contributed EUR 200 billion, while India’s share stood at EUR 121 billion. If India were to abruptly halt its Russian oil imports, the global oil market could face significant disruption, as India’s demand of 5.6 million barrels per day would need alternative sources, likely driving prices sharply higher. This situation highlights stark inequities in global trade and energy dependencies, where strategic interests often overshadow fairness. In a way this catharsis is good for India, and I am sure the country will emerge stronger. We still advocate exposure to small and midcaps, preferably through hedged strategies. To look for mid-teen dollarised returns from Indian equities is realistic.

No note would be complete without analysis of the black swan event in unemployment. The non-farm payroll report upended the so-called resilient labour market. The payroll revisions for May and June were down by a combined 258K.

Another survey from the BLS: Business Employment Dynamics summary, which was printed on 30 July, indicated that from September 2024 to December 2024, gross job gains from opening and expanding private sector establishments were 7.8 million, an increase of 145,000 jobs from the previous quarter. Over this period, gross job losses from closing and contracting private sector establishments were 7.5 million, a decrease of 143,000 jobs from the previous quarter. In short, the job numbers are probably not as robust as they were touted to be.

There is a possibility that the FED may be forced to reassess its twin mandate and address the weak labour market, and there are two ways to go about this: by dialling down balance sheet reduction, reducing overnight rates, or do both. In such scenarios, a favoured trade would be to play a bullish steepener in the US 2year-US 30year part of the curve.






As a policy, I have always relied on continuing claims (hard data) to give me a better picture on the US jobs market, which has been signalling weakness over the last few months.

The UK continues to be in a state of flux, the recent rate cuts were the right trajectory, but budget fears still linger on consumer confidence. We expect one more cut from the BoE, despite the current indications of a hawkish tilt. We believe that the BoE is quite close to the neutral territory.

In Europe, we tend to favour the DAX index, which now appears poised for an upside breakout. Coupled with the ongoing dollar weakness, this could provide a meaningful tailwind. From a valuation standpoint, with the P/E ratio holding around 17.5, there remains sufficient scope for further gains. On a related note, a friend in Oman recently drew my attention to the KOSPI. Valuations there are equally compelling, and the index has already surged roughly 41% year-to-date. The Magnificent Seven in the U.S. continue to outperform the S&P 500 in both share price appreciation and earnings growth. The only underperformers on the earnings front have been Tesla and Apple. Given prevailing valuations, our outlook on Tesla remains strongly negative. We continue to recommend maintaining exposure to the Magnificent Seven, excluding Tesla.

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