

VIEWS FROM THE DESK

GLOBAL ECONOMIC AND MARKET OUTLOOK AUGUST 2025





H CAPITAL LIMITED
+971 4 388 1284
www.hcapitalltd.com
info@hcapitalltd.com

For Professional Clients Only

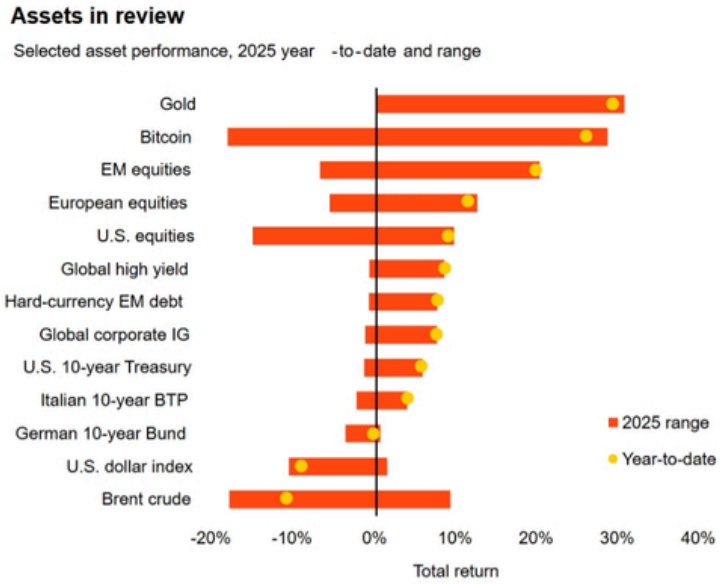
Regulated by the DFSA

INTRODUCTION

"When the ground beneath markets keeps shifting, the job of an investor is not to stand still — it's to adjust footing, lean into quality, and let volatility reveal opportunity. We don't fear inflection points; we use them to refine conviction."



Sandeep Jadwani - Head of Investment Advisory at H Capital Ltd



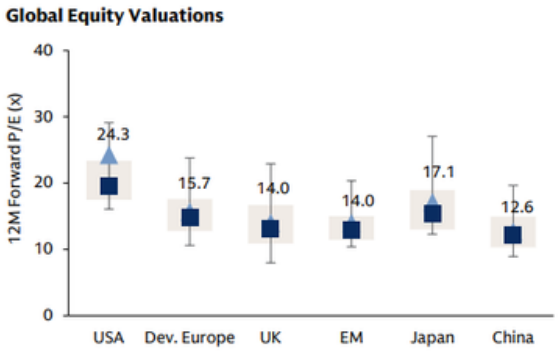
Sources: BlackRock Investment Institute, with data from LSEG Datastream as of August 2025

August's market story encapsulates the defining tensions of 2025: slowing growth, elevated yields, and the ongoing investor challenge of balancing income with quality and convexity. The August 1 release of July's non-farm payrolls added another inflection point in a year already full of them. Equities had been rallying, following the familiar July pattern of laggards catching up, and the S&P 500 pushed back toward all-time highs in the mid-6,400s, supported by a strong Q2 earnings season in which nearly 80% of companies beat expectations. Yet beneath that strength, macro signals diverged: resilient earnings on one side, but sticky services inflation and uneven data leaving the Fed's September path uncertain despite market pricing of a modest quarter-point cut.

Fixed income remains the structural governor of risk appetite. A U.S. 10-year yield in the low-4% range is far from the ultra-low backdrop of the past decade. It offers attractive carry in high-quality credit but simultaneously restrains equity multiples, particularly for long-duration growth names. Elevated yields, therefore, are a double-edged sword: they provide income and cushion for cautious investors while creating an opportunity cost for equities.

Commodities and geopolitics continue to steer regional and sector outcomes. Oil prices—sensitive to both geopolitics and Chinese demand—remain pivotal for GCC and commodity-linked emerging markets. Meanwhile, gold has reasserted its role as portfolio insurance, offering protection when bond yields and equity volatilities diverge.

The investment imperative is two-fold: capture steady income from high-quality spread products while preserving exposure to long-term compounders—especially large-cap technology and adjacent sectors that consistently deliver superior earnings. This dual focus addresses near-term volatility while positioning for the structural themes—AI, cloud, and digital monetization—that underpin durable growth.



Source : Goldman Sachs Asset Management 2025

THE LIMITS OF DEFENSIVE COMFORT

Defensive stocks were a logical shelter earlier this year when tariff risks and recession fears spiked. In March and April, low-beta, low-volatility names briefly outperformed as investors sought insulation. But the cracks are now visible.

Many of these companies sit in consumer staples and parts of healthcare where earnings revisions have deteriorated. Exposure chosen for stability can, paradoxically, underperform when fundamental momentum weakens. This is not a call to abandon cash or capital preservation, but it is a warning against complacent "defensive for defence's sake" positioning.

Practically, we translate this view into three main priorities over the coming months:

1. Maintain a core overweight to high-quality growth. Focus on leading technology, communications, and select online retail names that continue to compound profits and cash flow. Where valuations are stretched, favour cash-flow positive leaders to momentum darlings and use structured products to harvest yield while limiting downside.
2. Tilt the income sleeve toward high-quality spread products. Short- to medium-duration investment-grade credit, selective yield enhancements and bonus notes, and staggered laddering in corporate credit offer attractive carry without undue duration risk.
3. Be selective with defensives. Where staples or healthcare defensives show negative revisions, favor high-quality dividend growers with strong balance sheets over broad low-volatility baskets.

Risk management remains essential. We prefer calibrated convex hedges — for example, put spreads on long-duration tech instead of full outright puts. Modest allocations to gold act as insurance, tactical cash buffers allow us to capture dislocations, and duration management should remain dynamic, shortening if inflation surprises to the upside and lengthening if the Fed signals a credible cutting path.

Three signals will guide us closely:

1.) U.S. central bank commentary (credit conditions and loan-loss dynamics)

2.) The trajectory of core services CPI

3.) The health of tariff-exposed sectors vulnerable to policy shocks.

These inputs will determine whether we extend risk or retrench into carry and hedges.

The market can still end the year modestly higher. Momentum and earnings resiliency provide support, but more volatility should be expected as economic softness collides with policy ambiguity and geopolitics.

Our guiding philosophy remains consistent: protect capital, harvest yield prudently, and stay engaged with selective growth.

As head of investment advisory, I remain focused on turning volatility into opportunity while protecting client capital through precise hedging, intentional income allocation and selectiveness in growth exposure. Protection and participation are complementary .

S & P 500 YTD (Bloomberg)



GLOBAL MARKET OUTLOOK: A COMPLEX CROSSROADS

Diplomacy, Dovishness & Disruption

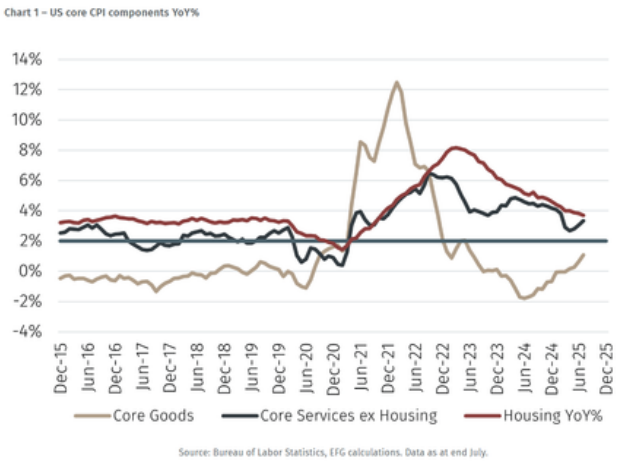
2025 has already been a year of sharp inflection points, and markets now sit at a crossroads shaped by two dominant forces: renewed geopolitical diplomacy in Eastern Europe and signs of a dovish pivot from the U.S. Federal Reserve.

President Trump's meeting with President Zelenskiy, paired with a 90-day extension of the U.S.–China trade truce, helped buoy sentiment. At the same time, expectations of rate cuts are anchoring positioning across asset classes. In this environment, capital markets are recalibrating with each new policy headline. This is a reminder that discipline is far more valuable than prediction.

The U.S. economy underscores this fragility. July's CPI eased slightly (0.2% MoM, 2.7% YoY), but PPI surged 0.9% MoM, its strongest since 2022, suggesting firms are still absorbing cost pressures.

Core inflation rose 0.3% MoM — the biggest jump since January — while retail sales slowed to 0.5% MoM versus a June print of 0.9%, pointing to early consumer fatigue. The labour market remains resilient but less dynamic, with initial claims falling while continuing claims barely moved.

Taken together, the data strengthens the case for Fed easing rates: we expect a 25bps cut in September, followed by further reductions into March 2026. Yet this easing cycle comes with risk, as tariffs and supply-chain shifts keep inflationary pressures alive.



Global Divergence

Growth dynamics outside the U.S. are diverging, driven by local policies and idiosyncratic factors:

- United Kingdom: GDP expanded 0.4% in June, but higher taxes and soft demand may cap household spending. We expect steady BoE cuts into early 2026.
- Eurozone: Growth is subdued (0.1% QoQ), but German fiscal stimulus and U.S. trade détente are stabilizing outlooks. Earnings momentum is strongest in Tech (+26%), Healthcare, and Financials.
- Japan: Q2 GDP surprised at +1.0% annualized, the fifth consecutive quarter of expansion. Still, political uncertainty and weaker exports weigh. A BOJ hike is likely by Jan 2026.
- India: A ratings upgrade and reform progress support growth, though tariffs weigh. Two 25 bps RBI cuts appear likely.
- China: H1 was strong, but July retail sales (3.7% YoY) and industrial output (5.7%) slowed. Real estate fragility lingers, though PBoC stimulus underpins our overweight stance.

Navigating Policy & Diplomacy

Equities rallied in July and August — the S&P 500 reached three record closes, and European and Asian markets climbed alongside the extended U.S.–China truce. But valuations remain stretched, particularly in U.S. large-cap growth.

Investor flows are rotating from U.S. ETFs to European and EM vehicles, highlighting diversification trends.

Bond markets remain volatile: U.S. 2-year yields ended at 3.75% while 10-years rose to 4.32%. Tariff-linked inflation risk complicates the Fed's dovish tilt, keeping us neutral on sovereigns but constructive on shorter durations and EM local debt.

In commodities oil remains range-bound ahead of geopolitical events, while gold holds firm as a systemic hedge.

Currencies, meanwhile, show renewed dollar strength especially against Yen and Sterling, but it remains fundamentally overvalued, so we expect longer-term depreciation supportive of EM FX.

What's Next?

Investors are now navigating a world defined less by historical norms and more by structural mega forces:

- Artificial Intelligence and the tech arms race
- Global trade realignment
- Energy transition
- Financial de-globalization

In Q2, U.S. tech and software investment even outpaced the dot-com era. For us, this reshapes allocation frameworks from a single baseline outlook to multiple structural scenarios. India and China remain at the crossroads of these forces and central to our regional views. Private markets, too, gain importance as complements to listed exposures.

Risks on the Radar

- Tariff Policy Volatility: Sudden policy shifts remain destabilizing.
- Valuation Extremes: U.S. mega-caps trade at historically high multiples.
- Earnings Risk: Top-down forecasts remain well below bottom-up consensus.
- Policy Uncertainty: Central bank independence faces new scrutiny, particularly in the U.S.

As of August 2025, headline indices reflect optimism, but the underlying macro story is more fragile. Opportunities exist in emerging markets, short-duration bonds, private assets, and AI-driven sectors, yet a cautious stance remains prudent. The way forward is to stay nimble, allocate with discipline, and lean into structural tailwinds while maintaining hedges against volatility. That balance — protection alongside participation — remains the core of our philosophy as this cycle matures.

Global Companies YTD (Bloomberg)



Discipline Over Euphoria: Small Caps, Private Markets & IPOs

Late summer is typically a quiet season for investment banking, yet 2025 has broken with tradition. IPO activity is running significantly above seasonal norms.

By mid-August, 12 companies had raised at least $50 million each, totalling $2.9 billion. That compares to a decade-average of nine deals raising about $1.5 billion, nearly doubling historical norms. Importantly, this is not opportunism alone: companies only step into public markets when investor appetite is there, and current demand has proven robust.

High-profile listings have led this wave. The crypto exchange Bullish raised more than $1 billion, debuting at $90 per share versus a $37 offer price and closing its first session with a $10 billion market cap.

Figma staged one of the year's most celebrated offerings in July, opening at $85 versus a $33 IPO price and climbing swiftly to $142.92, cementing a $50 billion valuation.

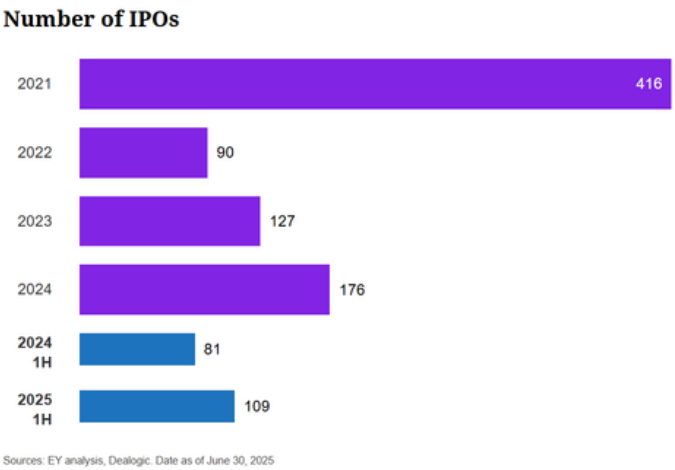
Circle, the stablecoin issuer, also impressed in June with a $31 IPO price and aftermarket highs near $298. Most recently, CoreWeave, a cloud infrastructure specialist for GPU-driven AI workloads, priced above range and traded strongly, reflecting investor enthusiasm for enablers of AI adoption and scalable cloud computing.

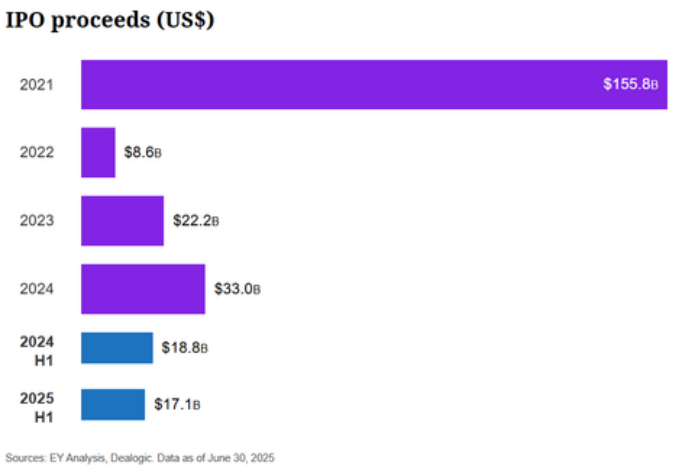
Backed by Nvidia and leading venture firms, CoreWeave's debut is seen as a bellwether for demand in next-gen infrastructure.

This resurgence follows a muted first half. Trade-policy volatility early in the year, spurred by President Trump's tariff moves, delayed several PE-backed and tech deals. But the thaw is evident.

EY reports 109 IPOs priced in H1 2025, up from 81 in H1 2024. Q2 alone delivered 50 IPOs raising $8.1 billion — a 16% rise in deal count, though proceeds fell 20% from Q2 2024. From the post-tariff market low on April 8, an IPO ETF surged nearly 50%, almost doubling the S&P 500's return over the same period. That echoes the 2014–2019 post-crisis recovery, though such divergences can also signal froth.

Banks are clear beneficiaries. Equity underwriting fees have rebounded, lifting shares of JPMorgan, Goldman Sachs, Citigroup, and Morgan Stanley — a sector once dismissed as in structural decline now showing signs of cyclical revival.





THE BACKLOG AND WHAT COMES NEXT

Beneath the surface, a significant backlog of companies still awaits exit. According to McKinsey's Global Private Markets 2025 report, the number of PE-backed firms awaiting IPO is at a two-decade high. Many were valued aggressively during the 2020–21 boom, leaving some investors underwater. Secondary markets are showing the strain: Jefferies notes that venture secondary stakes now trade at just 78% of NAV, underscoring pressure on late-stage investors to unlock liquidity. Greater flexibility — accepting lower IPO valuations — may accelerate listings. As Morgan Stanley puts it: "We are entering the second half of the year with a renewed sense of optimism in the IPO market on the back of a number of high-profile deals that priced well and traded extremely well in the aftermarket."

RISKS AND CONSIDERATIONS

Despite the optimism, risks demand careful attention:

- Valuation overhang: Many listings are priced below their 2020–21 private rounds, raising the risk of "down-round IPOs."
- Sector concentration: AI and crypto dominate. While CoreWeave, Figma, and Bullish are compelling, the market is heavily indexed to these themes. A cooling of AI enthusiasm could prompt sharp reversals.
- Liquidity pressures: PE and VC firms face redemption needs; a rush of sponsor-backed exits could flood supply and widen dispersion.
- Macro volatility: Trade shocks, Fed missteps, or geopolitics could abruptly close the IPO window.
- Aftermarket sustainability: History reminds us not every blockbuster debut sustains its valuation.

ADVISORY PLAYBOOK:

For investors, enthusiasm must be tempered with discipline.

The opportunities are clear: IPOs with strong fundamentals and ecosystem roles — CoreWeave in AI infrastructure, Figma in design productivity, and Circle in blockchain finance — exemplify structural growth.

Yet risks are equally evident: chasing every hot deal courts, disappointment when cycles turn. Banks and advisors are positioned for earnings momentum as underwriting revives, but selectivity will be crucial as the backlog clears, and quality gaps widen.

Ultimately, 2025's IPO resurgence is both a signal of strength and a cautionary tale. It underscores investor demand for genuine enablers of technological transformation, while reminding us that froth often follows exuberance. The winners will be those with durable moats and clear structural relevance; the casualties, those riding only on sentiment. A disciplined approach — leaning into quality while resisting momentum excess — will be essential as this cycle matures.

Critical Dates

EVENT	DATE
FED CHAIR POWELL	AUG 22
ECB MEETING	SEP 10
FOMC MEETING	SEP 16
BOJ MEETING	SEP 18
BOE MEETING	SEP 18

ASSET ALLOCATION VIEWS

Asset Class	Sub-Class	View (FY '25)	Views (Aug '25)
Main Asset Class	Equities	▲	=▲
	Fixed Income	=▲	=▲
	Commodities	=▲	=▲
	Currencies	=▲	=▲
Equities	USA	▲	=▲
	EU (Ex UK)	=	=▲
	UK	=	=
	EM (Ex MENA, India & China)	▲	=
	MENA	=▲	=
	Japan	▲	▲
	India & China	=▲	=▲
Fixed Income	US Treasuries	=▲	▲
	Euro (Bunds)	▼	▼
	UK Gilts	▼	▼
	US IG	=▲	=▲
	US HY	=▲	=▲
	Europe IG	▼	=
	EM	=▲	=▲
Commodities	Oil	=	=
	Precious Metals	=	=▲
Currencies	USD	=▲	=▲
	EUR	=	=▲
	GBP	=	=
	CHF	=▲	=▲
	EM	=	=

▲ Overweight = Neutral Weight ▼ Underweight Positive Tilt Negative Tilt

CONCLUSION

The story of 2025 so far has been one of contrasts. On one side, we see resilient earnings, innovation-driven growth, and renewed optimism in areas such as IPOs and private markets. On the other, we face slowing global growth, persistent inflation pressures, geopolitical friction, and policy uncertainty. This tension is not temporary — it is the very environment in which we must invest.

Our discussions this month highlight how investors need to approach markets with both discipline and flexibility. The August narrative reminded us that slowing growth and elevated yields can coexist with new highs in equities, requiring a balance between harvesting income and sustaining selective exposure to long-term compounders. The "defensive trade," once a logical refuge, is showing cracks, proving that not all stability is created equal and that selectivity must replace complacency. The global outlook underscores divergence: the U.S. edging toward late-cycle fragility, Europe stabilizing, Asia pulling ahead in fits and starts, and emerging markets like India and China sitting at the crossroads of structural change.

Meanwhile, the IPO market has staged a dramatic comeback, offering opportunity but also warning against euphoria — a reminder that discipline matters more than chasing headlines.

What ties all these threads together is the same philosophy we have repeated throughout: protect capital, harvest yield prudently, and remain engaged with selective growth. Protection and participation are not opposing forces; they are complementary when handled with precision. Tactical hedges, short-duration credit, and gold allocations provide stability. At the same time, targeted exposure to technology, AI infrastructure, and digital enablers ensures portfolios remain connected to the forces shaping tomorrow's economy.

The months ahead will not be straightforward. Softer economic data, the Fed's delicate balancing act, volatile geopolitics, and concentrated investor enthusiasm will all create more inflection points. Yet volatility also creates entry points. By leaning into quality, respecting valuation discipline, and remaining nimble, we can turn disruption into durable opportunity.

In closing, our commitment remains the same: to steward client capital with discipline, intentionality, and humility. We will be precise in our hedges, thoughtful in our income strategies, and selective in our growth exposures. Because in cycles like this, success is not about predicting the next headline — it is about staying grounded in principles that protect today while positioning for tomorrow.

Sandeep Jadwani - Head of Investment
Advisory at H Capital Ltd

******* H Capital Limited Disclaimer *******

H Capital Limited (Regulated by DFSA), formerly known as Habib Investment Limited.
H Capital Limited is a licensed financial service provider established in the Dubai International Financial Centre ("DIFC") and regulated by the Dubai Financial Services Authority ("DFSA").
This material is intended for the professional clients and/or market counterparties clients as classified under the DFSA rulebook. No other person should act upon this communication. The information in this e-mail and any attachments may contain Confidential and Proprietary information and is intended solely for the use of the individual to whom it is addressed. This document should only be read by those to whom it is addressed and is not intended to be relied upon by any person without subsequent authority of the sender. Accordingly, the sender disclaims all responsibility and accepts no liability (including negligence) for the consequences of any person acting, or refraining from acting, on such information prior to the receipt by those persons of written authority of the sender.
Any analysis on client portfolios relating to the market performance of the constituent holdings that is conducted by H Capital Limited is indicative in nature and is performed on a best effort basis. Such analysis is not intended to be a "Client Valuation Statement" and it should therefore not be relied on by clients as fulfilling such a role. For the avoidance of doubt, you should rely only on the Client Valuation Statements that are issued by your Bank.
This Prospectus relates to a Fund which is not subject to any form of regulation or approval by the Dubai Financial Services Authority ("DFSA"). The DFSA has no responsibility for reviewing or verifying any Prospectus or other documents in connection with this Fund. Accordingly, the DFSA has not approved this Prospectus or any other associated documents nor taken any steps to verify the information set out in this Prospectus and has no responsibility for it. The Units to which this Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers should conduct their own due diligence on the Units. If you do not understand the contents of this document, you should consult an authorised financial adviser.
H Capital Limited is committed to protecting the Personal Data of the individuals we encounter in conducting our business and have updated our Privacy Policy in line with the current DIFC Data Protection Law. The Privacy Policy is subject to updates and the current version is available at the following Website address: www.habibinvest.com
All images used from Canva Stock. Sources included (Blak Rock, Goldman Sachs, EY, Bloomberg, EFG, Renaissance.)